

Fulbright Urges Wider Educational Exchanges With East

J. William Fulbright, the former senator from Arkansas and chairman of the Senate Foreign Relations Committee, introduced the Fulbright Program for educational exchange 50 years ago. It became law in 1946. Mr. Fulbright discussed the program with Barry James of the IHT.

Q. Did your own experience as a student at Oxford influence your decision to introduce the program?

A. I went to Oxford in 1929, long before the program, but I have no doubt it was an influence in introducing it. I can't imagine I would ever have thought of it otherwise.

Q. What sticks in your mind about Oxford?

A. I came from a little village in the Ozark Mountains, and it was a tremendous experience for me. It was like going to another world, a fairytale, a wonderful place. I had some difficulty in getting down to serious study, but the example of the young Englishmen inspired me to work much harder than I ever had before because I was embarrassed by my ignorance.

Q. Do Fulbright scholars ever tell you the same kind of thing about their experiences?

A. Yes. I get a few letters and they come by every now and then to tell me how much it meant to them. There have been quite a few of them, you know.

Q. About how many?

A. More than 150,000 — one-third Americans and two-thirds foreigners.

Q. How could the program be improved?

A. Well, I think they should go back to giving the money to students who have introduced the program.

MONDAY Q&A

just graduated from college and not to professors with families. I don't approve of that. There are other programs for them.

Q. Do those running the program ever seek your advice?

A. Oh no. I'm 85. Every once in a while I volunteer advice, but they don't pay any attention to me.

Q. But isn't age wisdom?

A. Ha. That's an Oriental idea. In America, when you are over 60 you are old hat and they put you away.

Q. Why do you think the program should concentrate on graduate students?

A. Look, for example, at the man who is Mr. Gorbachev's friend and senior ad-

viser, Alexander Yakovlev. He studied the New Deal at Columbia University in 1958-59, and now he is making a great difference in international relations. Three members of the Polish government are Fulbright alumni, as are the majority of the South Korean cabinet.

There have been about 2,500 exchanges between America and the Soviet Union; 1,300 Soviets came here and about 1,100 Americans have been there. It's a small investment when you see what is happening now. My own view is that the changes there have been influenced considerably by people like Mr. Yakovlev.

Q. But the program is not growing as fast as it might?

A. No. Inflation has reduced it. But I haven't been able to impress our government about its importance, and they have difficulty in supporting a major program.

When Mr. Reagan came in, in fact, the administration proposed to cut the program in half. When you think that the total investment in this program from the very beginning would be about a half or even a third the cost of a modern aircraft carrier, it's incredible the value you get out of it.

Q. Do you agree with those who say

educational standards in America are declining?

A. Of course. The West Europeans are beginning to show considerable superiority to us, not to speak of the Japanese. We prevented them wasting their money on the military and now look what they are doing.

Q. But I've seen complaints that American studies are in steep decline in Britain, possibly elsewhere.

A. That's because the United States is beginning to look irrelevant to a lot of people.

Q. Why do you think that?

A. Because we spend all our money on arms. I was just reading of another \$300 million for obsolete airplanes. It's outrageous. It's insane. Business people need the money, although we don't need the arms. So we give them these billions of dollars. It makes me furious.

Q. If you had a chance to set off as a Fulbright scholar today, where would you go?

A. I still like Oxford. I'm going there again this month. They are naming part of a building after me.

Q. What did your studies at Oxford give you?

A. It gave me the idea that warfare

between countries makes no sense. It made me, in a sense, a pacifist. The waste of lives and money in conflicts through history is incredible. I studied history and I have always been impressed by the stupidity of the human race.

I would like to see the Fulbright Program extended in the Soviet Union and Eastern Europe and I would like to encourage Americans to go there. This is the best insurance you could get against the recurrence of the conflicts that have ruined so much of our economy in the past. We spend all our money on armaments, relatively speaking. Put half that money into education, and in time you would see a very great change.

Q. It isn't just a question of money though?

A. No. Television has undermined education. It mesmerizes people with superficialities and pure entertainment. It has taken the place of conversation. This is a terrible subject to get me on. I think what it has done is awful.

Q. After a lifetime of reading and political leadership, is there any one book that stands out?

A. Thucydides was one of my favorites, still is. That terrible conflict between Sparta and Athens was a warning to me about our own proclivity to make war.

Yeltsin Vows Rapid Change And Asks Miners Not to Strike

Compiled by Our Staff From Dispatches

MOSCOW — Boris N. Yeltsin, the new president of the Russian Republic, has pledged to pursue economic changes that would not lower living standards and said he would appeal to voters if conservatives blocked his plan.

Mr. Yeltsin called for a grace period of two to three years to rescue the stricken economy of the Soviet Union's largest republic and specifically appealed to discontented coal miners not to stage a strike that could cause a "conflagration."

Mr. Yeltsin, a vocal opponent of President Mikhail S. Gorbachev, criticized the national govern-

ment's five-year plan to establish a market-based economy involving steep price increases for food and other goods.

"That is the fundamental difference," he said in a television interview. "In their program everything is heaped on the shoulders of the people, while in ours that is not the case."

"By using different economic levers," he said, "we can ensure that people's standards of living do not fall and indeed should rise in time."

But he said the predominantly conservative parliament of the Russian Republic, by far the largest and most influential of the 15 Soviet republics, was "unstable" and could complicate the introduction of radical change.

"If there is ever a critical point where understanding cannot be reached, then I will go to the people," Mr. Yeltsin said. "I will go to the electorate."

Mr. Yeltsin, who was elected president of the republic two weeks ago despite an open campaign by Mr. Gorbachev in favor of his opponent, dismissed claims that he had no specific economic program.

"We need two years to stabilize the situation and in the third we will see some improvement," he said.

"But this unquestionably depends on your own desire to create the local conditions necessary for the program to be implemented. I would simply ask you to make this grace period clear and to trust us."

The government program, presented to the Soviet parliament last month by Prime Minister Nikolai I. Ryzhkov, has come under fierce criticism in parliament.

The proposed price increases, including a phased threefold jump in bread prices beginning next month, sparked panic buying in Moscow and other cities.

The plan is due to be re-examined by Soviet deputies this week and changes are widely expected.

Mr. Yeltsin urged coal miners, who staged a national strike last year, to show restraint despite general recognition that an agreement to improve their living and working conditions had not been fulfilled.

"They should now nevertheless refrain from anything that would destabilize the situation in the Russian Federation even more," he said.

"It is so tense now that any spark, any rash action anywhere or even even a rash word, could create quite simply a conflagration."

News reports in the past week have spoken of discontent in the Arctic and other coal-producing areas and a congress of miners this week in the Ukrainian city of Donetsk may decide on a national stoppage.

Mr. Yeltsin's interview was recorded on Thursday, a day before the Russian parliament approved a declaration on sovereignty stating that the republic's constitution had precedence over Soviet law.

(Reuters, AP)

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(Reuters, AP)



UKRAINIAN WELCOME — Prime Minister Margaret Thatcher of Britain meeting Ukrainians in traditional dress in Kiev. She ended a four-day visit to the Soviet Union in Armenia on Sunday.

115 Killed In Kirghiz Violence

By David Remnick

Washington Post Service

MOSCOW — The death toll in recent battles between ethnic groups in Soviet Central Asia is now 115, and the hardest hit areas are now under the control of the army and the Interior Ministry, the state-run news organizations reported Sunday.

The main fighting was in the holy city of Osh in Kirghizia, a mainly Muslim republic. Soviet television showed burned-out cars and houses and other signs of the violence that began June 2.

Fighting now is only sporadic, but "tensions are still running high" in Osh, the Communist youth newspaper Komsomolskaya Pravda reported.

Armed personnel carriers are stationed at nearly every corner of the city. In the Kirghizian capital, Frunze, a mass rally planned for Sunday was canceled.

The violence between Sunni Muslims along the border of Kirghizia and Uzbekistan combine President Mikhail S. Gorbachev's two main domestic crises: ethnic tensions and the pitiful economic state of the country.

Kazat Akmatov, a leader of the Kirghizian Democratic Movement and of the republic's writer's union, said that a collapse of local authority and desperate social conditions inevitably led to the clashes between Uzbeks and Kirghiz.

The fighting in Osh flared over the distribution of land and housing in the city.

"All this time, the Communist Party leaders have been neglecting social issues, and this had led to the appearance of large numbers of homeless, destitute and socially unprotected people, often with large families to support," Mr. Akmatov told the independent news agency Postfactum.

He said that in Osh, a city of 210,000 people, there are 30,000 homeless.

The Central Asian republics suffer from soaring rates of unemployment, infant mortality and poor nutrition.

The Communist Party leadership in Central Asia are still dominated by old-guard politicians who cling to their authority and privileges, despite the new leadership in Moscow.

Mr. Akmatov blamed "70 years of Communist Party rule" and local Communist Party officials for ignoring the social problems of working people and then blaming everyone but themselves for the social unrest that has become a constant in Soviet political life.

The border between Kirghizia and Uzbekistan has been closed and officials have declared a state of emergency in regions on both sides of the border.

Religious leaders from both the Uzbek and Kirghizian sides have been meeting in a town near Osh to help calm the tensions between the two sides.

The Soviet Army newspaper Krasnaya Zvezda blamed vigilante groups for trying to stir up the violence. The newspaper said that some extremists wearing stolen army uniforms had been shooting at civilians to provoke further trouble.

A spokesman for the opposition Mubajir National Movement put the number of arrests at 4,000 and said several hundred other people have been missing since the crackdown was begun on May 15.

A senior police official said 3,375 people had been arrested as of June 4.

More than 260 people have been killed in the last two weeks in the latest surge of the violence that has pitted rival ethnic groups against each other in Sind, the home province of Prime Minister Benazir Bhutto.

Order has been restored by an army-supervised curfew on large parts of the provincial capital, Karachi, and the nearby town of Hyderabad.

The secretary-general of the Mubajir National Movement, Imran Farooq, said that about 95 percent of those arrested are Mubajirs, or Muslim migrants from India. He accused the police and paramilitary forces of raiding Mubajir homes at night and harassing old people, women and children.

A federal judge in Fort Lauderdale on Wednesday ruled that the group's sexually explicit album "As Nasty As They Wanna Be" was legally obscene by south Florida standards.

2 in Rap Group Seized in Florida

United Press International

HOLLYWOOD, Florida — Two members of the rap group 2 Live Crew were arrested Sunday and charged with violating Florida's obscenity law for a live performance before a club audience, a sheriff's official said.

Luther Campbell, 29, and Chris Wun Wong, 21, were arrested several blocks away from the club, a police spokesman said. Warrants will be issued for two other band members.

A federal judge in Fort Lauderdale on Wednesday ruled that the group's sexually explicit album "As Nasty As They Wanna Be" was legally obscene by south Florida standards.

WORLD BRIEFS

Ex-Communists Win Bulgarian Vote

SOFIA (Reuters) — Bulgaria's former Communist Party on Sunday won the country's first free elections in more than four decades, according to initial predictions.

The West German opinion survey company INFAS said that the Socialist Party, the successor to the Communists, won 48.5 percent of the vote and that the main opposition party, the Union of Democratic Forces, had 32.3 percent.

It said its estimate was based on returns from 125 polling stations.

Bulgaria's vote is the last in a series of free elections this year in Eastern European countries that have toppled their hard-line leaders. Official estimates said nearly 80 percent of the electorate had turned out to choose an assembly whose main task will be to draft a constitution within 18 months.

Kaifu's Party Loses Pivotal Election

TOKYO (Reuters) — The Japan Socialist Party hung onto its upper house seat in a by-election in the city of Fukuoka on Sunday, denying the governing Liberal Democratic Party of that chamber in the Diet.

National television, NHK, said Shigeo Mieno had defeated Norihiko Sumiyoshi, who failed to capitalize on the popularity of Prime Minister Toshiki Kaifu.

The seat was important to the governing party, which has a majority in the powerful lower house, but, in a major upset, lost control of the upper house last June for the first time in postwar party history.

Vandals Strike Jerusalem Cemetery

JERUSALEM (AP) — Vandals smashed 80 tombstones in the American section of the Jewish cemetery on the Mount of Olives, the police said Sunday. A police spokesman said there were no suspects.

The damaged tombs are on the side of the biblical mount in east Jerusalem overlooking the walls of the Old City. The cemetery there is the largest and oldest Jewish graveyard in the world.

Eighty tombstones or raised limestone graves were smashed, crushed or toppled in two sections of the graveyard. Flowers and memorial candles were strewn over the site, and the names of many of the deceased could not be read because of the damage.

U.K. Pilot Saved as Window Breaks

LONDON (AP) — A British Airways pilot was pulled halfway out of his plane Sunday when the windshield blew out in flight, but he was rescued by stewards while the co-pilot made an emergency landing, the airline said.

A steward, Nigel Ogden, heard a bang and managed to grab the pilot's legs as the twin-engine BAC 1-11 flew at 24,000 feet (7,315 meters), the spokesman said. The co-pilot landed the plane at Southampton Airport. It was on a scheduled flight from Birmingham, England, to Málaga, Spain.

Thousands of Contras Keep Weapons

MANAGUA (UPI) — Several thousand contra rebels held on to their weapons Sunday as their deadline to disarm passed, but international observers said most of the guerrilla force had been dismantled.

By Sunday morning, about 9,200 contras had laid down their weapons, said a spokesman for the Organization of American States' Support and Verification Commission. That number included 800 who surrendered their arms at a ceremony on Saturday.

Burma Opposition Is Official Winner

BANGKOK (UPI) — The Burmese election commission has officially credited the opposition National League for Democracy with a majority in the People's Assembly, paving the way for negotiations with the military government on a transfer of power, Rangoon radio reported Sunday.

The radio said that the official count from the May 27 balloting showed the opposition party had captured 251 seats in the 492-seat People's Assembly, or legislature. Other parties have been declared the winners of only 36 seats as official vote-counting continues from the first democratic election in Burma in 30 years.

Unofficial counts have indicated that the National League for Democracy will hold more than 390 seats, but officials of the party said on June 1 that they would wait for a majority in the official count before asking for talks on a transition.

For the Record

A British anti-terrorist police chief said Sunday he believed that Irish guerrillas planted a bomb that exploded at a British Army unit on Saturday night, wounding 17 people. Detective Chief Superintendent Derek Willison said the explosion, which ripped through the roof of the central London headquarters of Britain's oldest army unit, the Honourable Artillery Company, had "all the hallmarks of the IRA." No one has admitted responsibility for the explosion.

(Reuters)

TRAVEL UPDATE

China Will Relax Tourism in Tibet

CHENGDU, China (Reuters) — China will soon relax restrictions on tourism in Tibet but travelers will have to be on a package tour with a guide and a strict itinerary. Backpackers, accused of inciting rebellion there in the past, will remain barred, officials say.

A senior tourism official in Chengdu said a rule that only groups of three or more people could travel to Tibet would be scrapped and individuals would soon be allowed to go only as part of a package tour. About 3,600 tourists visited Tibet in 1989, a sharp drop from the peak year of 1987, when 43,000 tourists went there.

Upstate Airlines Corp. and Air Tanzania Corp. have signed an accord for joint air services between the two countries.

(AP)

This Week's Holidays

Banking and government offices will be closed or services curtailed in the following countries and their dependencies this week because of national and religious holidays:

MONDAY: Australia, Libya, Papua New Guinea, Paraguay.

TUESDAY: Philippines.

THURSDAY: Andorra, Austria, Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, Equatorial Guinea, Grenada, Haiti, Liechtenstein, Paraguay, Poland, Portugal, Seychelles, Spain, Switzerland, Vatican City, Venezuela.

FRIDAY: Vatican City.

SATURDAY: Hong Kong, Vatican City.

SUNDAY: West Germany, Iceland.

Source: Morgan Guaranty Trust Co., Reuters.

WEATHER

EUROPE				ASIA			
	HIGH	LOW	P		HIGH	LOW	P
Amsterdam	15	10	F	Bangkok	32	28	F
Athens	15	10	F	Beijing	28	22	F
Berlin	15	10	F	Bombay	32	28	F
Birmingham	15	10	F	Buenos Aires	28	22	F
Boston	15	10	F	Calcutta	32	28	F
Brexit	15	10	F	Chengdu	28	22	F
Buenos Aires	28	22	F	Chongqing	28	22	F
Cardiff	15	10	F	Chongqing	28	22	F
Cebu	32	28	F	Chongqing	28	22	F
Chicago	15	10	F	Chongqing	28	22	F
Cincinnati	15	10	F	Chongqing	28	22	F
Cleveland	15	10	F	Chongqing	28	22	F
Columbus	15	10	F	Chongqing	28	22	F
Dallas	15	10	F	Chongqing	28	22	F
Danvers	15	10	F	Chongqing	28	22	F
Denver	15	10	F	Chongqing	28	22	F
Detroit	15	10	F	Chongqing	28	22	F
El Paso	15	10	F	Chongqing	28	22	F
Hankow	28	22	F	Chongqing	28	22	F
Hong Kong	32	28	F	Chongqing	28	22	F
Los Angeles	15	10	F	Chongqing	28	22	F
London	15	10	F	Chongqing	28	22	F
Madison	15	10	F	Chongqing	28	22	F
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LIEFS

Bulgarian Vote
Communist Party on the
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'DATE

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1990, Frankfurt, Germany



NOTHING BUT HOUND DOGS — A pack of Elvis Presley impersonators running through their routines at their first-ever convention, held in Rosemont, Illinois. Nearly 50 participants showed up in their look-alike jumpsuits from places as far away as England, Italy and Australia.

AMERICAN TOPICS

Haft in Retardation Brings Own Problem

A once-revolutionary screening program and diet therapy to prevent mental retardation have been remarkably successful for the nearly 300 American infants who are born each year with phenylketonuria, an inherited metabolic disorder called PKU.

But the doctors are now mobilizing to combat a new problem generated by their success. The New York Times reports. They are seeking to prevent mental retardation in the next generation of children — those born to women who have been saved by the simple heel-prick screening test that detected their condition in the first days of life.

The test, first introduced in 1961, became mandatory in most states by the early 1970s. Within weeks of birth, children found to have PKU were placed on a special low-protein diet that protected their developing brains from irreversible damage by phenylalanine, a nutrient their bodies could not process.

Now physicians must cope with the hundreds of girls with PKU but spared retardation who are growing up, marrying and having children of their own.

Once grown, they may no longer need to stay on the restricted diet, and must have long since

gone off it. As a result, they have abnormally high levels of phenylalanine in their blood that could do severe damage to their children.

So the physicians who helped them blend into society must once again get them back on the special low-phenylalanine diet before they conceive.

About People

Despite a rough 20 months, Michael S. Dukakis says nothing is more important or fulfilling than public service. Since losing the 1988 presidential election to George Bush, Mr. Dukakis has had to contend with depressing fiscal troubles in Massachusetts and with a self-inflicted status of lame duck since he announced in January 1989 that he would not run for re-election. Even so, in a commencement address at Williams College, he told the new graduates that in public service, "Sure, you're going to take some knocks. Sure, the press can be a pain in the neck. But think of the opportunities for commitment, for excellence."

Thomas J. Watson Jr., 76, son and successor of the man who built International Business Machines into a corporate giant, says in a new autobiography, "Father, Son & Co." that after parting his way through Brown University and keeping his grades just high enough to avoid expulsion, he entered the IBM sales force and rose to become the company's top salesman — after a lucrative account was added to his territory. "I felt de-

meaned," Mr. Watson recounts. "Everyone knew that I was the old man's son, and that otherwise I never could have sold so much in such a short time."

Ralph Branes says the world has never let him forget the historic home run ball he pitched to Bobby Thomson in 1951, enabling the New York Giants to defeat the Brooklyn Dodgers for the National League pennant. "You know, if you kill somebody, they sentence you to life, you serve 20 years and you get paroled," he remarked. "I've never been paroled."

Short Takes

The East County Jail in San Diego County, California, is having trouble holding its prisoners. Erected seven years ago at a cost of \$38 million, it is so jerry-built that 11 prisoners have literally punched and kicked their way out in the past year. The County Board of Supervisors decided to economize by substituting plasterboard and styrofoam for the four inches (10 centimeters) or more of concrete that were supposed to go into the walls. So far, the voters have refused to approve taxes for a new jail.

Gen of the Day from the Ann Landers advice column, contributed by James Evered of Denton, Texas: The best way to lose a friend is to tell him something for his own good.

Arthur Higbee

U.S. Case on Noriega: No Paper Trail of Evidence

By James LeMoyne
New York Times Service

MIAMI — Despite an unceasing search to find physical evidence of drug dealing by Manuel Antonio Noriega, the former Panama dictator, disappointed American officials say that so far they have found almost no documents that conclusively prove that he trafficked in drugs.

U.S. officials say they had expected to find a damning paper trail of incriminating documents among Mr. Noriega's private and official papers, most of which are thought to have been seized by U.S. troops who invaded Panama last December.

The Reagan and Bush administrations long depicted Mr. Noriega, who faces two separate indictments accusing him of drug dealing and money laundering, as a big drug trafficker.

Mr. Noriega has pleaded not guilty and is not expected to come to trial until next year.

So far, the most damaging physical evidence against Mr. Noriega appears to be a letter discovered last month by Panamanian investigators, rather than by U.S. soldiers.

The attorney general of Panama, Rogelio Cruz, said the letter was found in a bank safe-deposit box belonging to Mr. Noriega's wife.

U.S. and Panamanian officials say the letter was written to Mr. Noriega by a convicted American drug dealer, Steven Kalish.

The 16-page letter is written in English and begins, "Dear Tony," It purports to discuss how to deal with Colombian cocaine traffickers.

The letter is signed "Brown" and includes the admonition, "Please keep this letter in strictest confidence because I have a right to see it in the United States."

The officials say Mr. Kalish used the code name "Brown" while he dealt drugs and laundered profits with Mr. Noriega.

They say Mr. Noriega provided Mr. Kalish with a Panamanian diplomatic passport under the name Frank Brown that he used to travel in and out of the United States while transporting millions of dollars in drug profits to launder through Panamanian banks.

Prosecutors say they expect Mr. Kalish to testify against Mr. Noriega.

The government also has apparently secured the testimony of Enrique A. Fretel, a 47-year-old Panamanian jeweler. He said in a plea agreement accepted Friday in court in Tampa, Florida, that he had helped launder drug sales proceeds with two convicted Tampa drug smugglers.

"A fourth silent partner in their business was General Manuel Noriega," the agreement said.

Under the agreement, Mr. Fretel promised to cooperate, testify and turn over any relevant documents.

But other than the letter signed "Brown," a six-month review of

tens of thousands of captured documents has turned up no evidence of drug dealing by Mr. Noriega, according to three U.S. officials closely informed of the painstaking review of documents by several U.S. agencies.

"We've found no smoking gun in the documents," said one senior U.S. official in Panama.

"Noriega was smart enough not to put anything on paper."

With few if any incriminating documents in hand to add credence

to the testimony of unsavory witnesses, Justice Department officials say they are turning their attention to a review of deposits and withdrawals for bank accounts controlled by Mr. Noriega and his associates.

The officials say they are trying to correlate dates and amounts of the movement of monies through the accounts with the testimony of witnesses who claim to have deposited drug profits in those accounts for Mr. Noriega.

Unraveling 'Lost' Dominican Election

By Howard W. French
New York Times Service

SANTO DOMINGO, Dominican Republic

— Three weeks after balloting, the Dominican Republic continues to await the results of a presidential election in which a margin of well under 1 percent separates the two leading candidates.

With no clear mandate, analysts are calling it the election everyone lost. They predict that whatever government emerges will have difficulty guiding the country through a period of tough economic adjustment and political change.

The election, which pitted the 83-year-old incumbent, Joaquín Balaguer, against his main rival of three decades, Juan Bosch, has been marked by bitter accusations of fraud and by a suspended effort to settle the matter through a vote recount. Any resolution is now said to be as far away as July.

Ever since Mr. Balaguer appeared headed for a narrow surprise victory in the hours after the vote on May 16, the country has skirted political crisis as Mr. Bosch and his supporters,

stunned by their failure to win as predicted, have cried foul and threatened confrontation. Mr. Bosch's approach forced a compromise recount, brokered by a former U.S. president, Jimmy Carter.

In the weeks since the election, however, many Dominicans have tired of the Bosch campaign's unproven allegations of fraud and have come to assume that Mr. Balaguer won.

Victor Grimaldi, a senior aide and biographer of Mr. Bosch, recently declared that Mr. Balaguer had genuinely won.

Mr. Grimaldi, who went into hiding after reportedly receiving death threats, said he made his statement in the interest of democracy and to avoid bloodshed.

Leaders of other opposition parties, while agreeing that there was significant fraud, have begun to prepare themselves for politics in what they feel will likely be the fifth and last presidential term for Mr. Balaguer.

Mr. Bosch's party, according to both its members and outside observers, is locked in introspection over whether their 80-year-old

leader fumbled his chances with provocative statements late in the campaign.

A Marxist who was ousted from power in a 1963 coup, Mr. Bosch made his comeback in part by carefully crafting an image of conciliation and moderation.

But in the final days of the campaign, questions about his steadiness arose when he threatened the deportation of a Cuban aide to Mr. Balaguer, questioned the role of the Roman Catholic Church and announced plans to sell off the state sugar industry, a major employer.

Just when Mr. Balaguer's victory began to be taken for granted, Froilan J.R. Tavares, the head of the electoral board and a presidential appointee, revived questions about irregularities by suspending the recount and inexplicably criticizing Mr. Carter, saying he had interfered and favored Mr. Bosch.

"There were 14 different public announcements by the electoral board showing Mr. Balaguer ahead, and the people began to believe them," said Leonel Fernández, a spokesman for Mr. Bosch. "But that has suddenly changed. Now nobody believes in the council."

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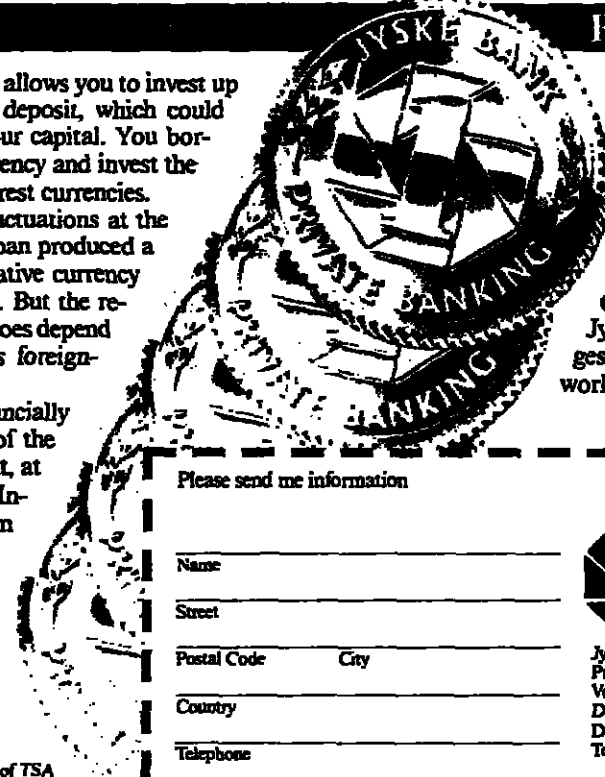
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Bonn Opposition Fails to Mend Rifts

Reuters

BONN — West Germany's Social Democrats, split over a treaty on German economic union and the tactics of their candidate for chancellor, failed to reach agreement in meetings Sunday.

The Social Democratic Party's parliamentary leaders debated whether to vote against the treaty that will introduce the West German Deutsche mark to East Germany on July 1, but would probably delay a decision until Thursday, party sources said.

Earlier, the party chairman, Hans-Jochen Vogel, met Oskar Lafontaine, the candidate for chancellor who has demanded changes in the treaty. After the meeting Mr. Vogel made it clear no decision on Mr. Lafontaine's future had been reached.

Mr. Lafontaine said last month the treaty would expose the weak, centrally planned East German economy to world market forces too quickly and provide inadequate protection against unemployment. But most Social Democratic leaders are more concerned that their party would be held responsible by East Germans if the treaty

— and the Deutsche marks it will bring — were to be delayed by Mr. Lafontaine's tactics.

The East German Social Democratic Party urged the Western party on Saturday not to hinder ratification.

Mr. Lafontaine may withdraw as candidate if party members do not back his call for them to register a protest by voting against the treaty in the Bundestag, then approving it in the upper house, the Bundesrat.

Mr. Lafontaine, the premier of Saar state, who is still recovering from an assassination attempt in April, when he was stabbed in the neck, was chosen in January to oppose Chancellor Helmut Kohl in December's elections.

In another development, the Der Spiegel news magazine said that West Germany was ready to give Moscow huge economic aid and shrink its army if the Soviet Union dropped its opposition to a united Germany in NATO.

In a shift of position, Moscow had indicated to Bonn that it could accept united German membership of a modified NATO, which until now it has ruled out, the magazine said.



Mr. Mirony, left, congratulating Mr. Bourassa as Industry Minister Benoit Bouchard applauds.

CANADA: Fragile Constitutional Accord Faces Tests

(Continued from page 1)

Mr. Wells said at the signing ceremony.

His signature, he said, meant only that he would take his decision back to his cabinet and legislature and ask them to reaffirm his approval by the June 23 deadline. He emphasized that he still had "grave doubts" about the accord.

New Brunswick's premier, Frank McKenna, called the compromise "the best deal possible" and said he would help push it through the provincial legislature. Manitoba's pre-

mier, Gary Filmon, heads a minority government, but provincial opposition leaders, who were present at the Ottawa talks, said they would recommend passage to the legislature.

The signing at a public session came after the talks started to unravel over a clause that would recognize Quebec as a "distinct society" as an inducement to get it to sign the country's constitution.

The Meech Lake accord would have expired unless signed by all 10 provincial premiers by June 23. In the face of a renewed separatist

movement in Quebec in recent months, political leaders of the province said that if the agreement were not signed, they would reconsider Quebec's political relationship with English-speaking Canada along the lines of the "sovereignty association" referendum that was defeated in 1980.

The premier of Quebec, Robert Bourassa, said the agreement was "a great gain for Quebec and a great gain for Canada."

Mr. Bourassa, who had refused to continue to take part in the talks if they continued to touch on diluting the distinct-society clause, added, "We are totally assured that Quebec will be more fully protected."

The seven days of debate called attention to the deep cultural divisions between French- and English-speaking Canada and the powerful forces of regionalism that have troubled Canada, a nation of 26 million people, since the confederation was founded in 1867.

During the debate, a number of provincial leaders said that even if these divisions were patched over by compromise, they would leave scars of alienation and intolerance that could take years to heal.

Members of the delegations' support staff said that the meeting Saturday was marred by recriminations and accusations of bad faith.

Premiers from some provinces have been under intense pressure not to give Quebec any constitutional powers not available to all provinces, while militant separatists in Quebec insisted that the talks not dilute gains won in the Meech Lake accord.

The compromise package contains three main parts:

A letter of clarification from leading constitutional lawyers declaring that the "distinct society" clause complements but does not override Canada's bill of rights, or adversely affect minorities other than French Canadians. The letter, to be attached to the record of the constitutional conference but not signed by the premiers, appeared to have little legal weight and was seen as a face-saving device for critics of the distinct-society provision.

The creation of a special parliamentary commission that will start cross-country hearings in July into a new "Canada clause" for the constitution's preamble that would broaden the definition of the Canadian identity and explicitly recognize the multicultural character of the country and the equality of provinces.

The committee is to report by Nov. 1, at which time another constitutional conference will be called to consider the addition of sexual equality, multiculturalism and rights of aboriginal peoples to the constitutional description of the "fundamental characteristics" of Canada.

Provision of a five-year deadline for the provincial premiers to revamp the appointed senate chamber of Parliament into an elected and effective body with more equal representation among the provinces.

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THE U.S. & EUROPE: CONFLICT, COOPERATION OR CRISIS?

INTERNATIONAL HERALD TRIBUNE

EUROPEAN COUNCIL OF AMERICAN CHAMBERS OF COMMERCE

PARIS, JUNE 13 — 15, 1990

JUNE 13

20.00 DINNER
Guest Speaker: Michel Rocard, Prime Minister of France

JUNE 14

09.00 CHAIRMAN'S OPENING REMARKS
John F. Crawford, President, European Council of American Chambers of Commerce
Lee W. Huesner, Publisher, International Herald Tribune

09.15 U.S. KEYNOTE ADDRESS
Roger Porter, Special Assistant to the President for Economic & Domestic Affairs, Washington DC

10.00 U.S.-EUROPEAN TRADE RELATIONS: THE OPPORTUNITY FOR EXPANSION
Edith Cresson, Minister of European Affairs, France
Ambassador Thomas M. Nilles, U.S. Representative to the EC

11.00 Coffee

11.30 THE U.S. AND EUROPE: AN INDUSTRY RESPONSE
Percy Barneville, President & Chief Executive Officer, Asa Brown Boveri Ltd
Henri Martre, Chairman & Chief Executive Officer, Aerospatiale
David E. McKinney, Chief Executive Officer, IBM World Trade Europe/Middle East/Africa Corporation

13.00 Lunch
EUROPEAN SECURITY AND DEFENSE
Jacques Chaban-Delmas, Mayor of Bordeaux, Former Prime Minister, France

15.00 EUROPEAN ECONOMIC AND MONETARY UNION
Jacques de Larosiere, Governor, Banque de France
The Rt Hon Sir Michael Peillet, Chairman, Samuel Montagu & Co Ltd
Mario Conde, Chairman, Banco Espanol de Credito

16.45 TRADE AND INVESTMENT FLOWS: WHERE ARE THEY GOING?
Robert D. Hornsby, Vice Chairman, Goldman, Sachs Int'l
H. Onno Ruding, Former Finance Minister, The Netherlands

18.00 Cocktails

JUNE 15

09.00 THE U.S., EASTERN EUROPE AND THE SINGLE MARKET
Vaclav Klaus, Minister of Finance, Czechoslovakia
Hans Tietmeyer, Member of the Board, Deutsche Bundesbank
George Soros, President, Soros Fund Management
Otto Wolf von Amerongen, Chairman, Deutsche Industrie und Handelstag

11.00 Coffee

11.30 STRATEGIES FOR THE NEW SOCIAL EUROPE
Gavin H. Laird, General Secretary, Amalgamated Engineering Union, UK
Vassio Papandreu, Commissioner for Industrial Relations and Social Affairs, EC
Francoise Perigot, President, Conseil National du Patronat Francais

12.45 Lunch

14.45 THE OUTLOOK FOR TRADE RELATIONS AND INDUSTRIAL COOPERATION
Renato Ruggiero, Minister for Foreign Trade, Italy

15.15 THE OUTLOOK FOR INDUSTRIAL COOPERATION: A CORPORATE PERSPECTIVE
Vittorio Casoni, Group Managing Director, Ing C Olivetti SpA
Chief Executive Officer, Major U.S. Corporation

16.15 A JAPANESE VIEW OF U.S.-EUROPEAN RELATIONS
Hisashi Owada, Deputy Minister for Foreign Affairs, Japan

16.45 VALEDICTORY REMARKS
The Rt Hon Sir David Owen, MP, Leader, SDP, UK

17.15 Close of Conference
Moderators:
Harry L. Freeman, President, The Freeman Company, Washington DC
Axel Krause, Corporate Editor, International Herald Tribune
Charles McC. Mathies Jr., Former U.S. Senator
William Pfaff, Author and International Herald Tribune Syndicated Columnist
Ambassador Edward Streator, President, American Chamber of Commerce (UK)

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For Last Available Places

VOTE: Havel Hails Vote as a Triumph of Democracy

(Continued from page 1)

men leaders. There was little sense of victory at a Civic Forum press conference, and senior strategists seemed properly subdued on the eve of taking the country into uncharted territory that one observer called "government by improvisation."

Communists View Loyalty

The Communists pledged Sunday to be a loyal opposition, news services reported.

Party leaders said they were now committed to a democratic system and took heart from the fact that they were run-ins-up.

The three-party Christian Democratic Union, which faded into third place, was hurt by the storm that has swirled since Wednesday about Josef Bartoncik, chairman of the largest member of their coalition, the People's Party. He has been accused of spying for the secret police.

Mr. Havel said he expected to appoint a prime minister this week. But Marian Calfa, who has led the Forum-dominated "government of national understanding" since December and ran as a candidate for Public Against Violence, may not be reappointed.

Only six parties are likely to be represented in the new parliament, which will serve just two years. Its main tasks will be to draw up a new constitution and press the creation of a market economy.

Parties representing Hungarians and Moravian minorities won seats, as did the separatist Slovak National Party.

But the Greens, and parties with long traditions such as the Socialists and Social Democrats, failed to gain the 5 percent of the vote necessary to win places.

(Reuters, UPI, NYT)

BASE: A Vital Airfield for NATO, or a Boondoggle?

(Continued from page 1)

expected troop cuts in Central Europe only bolster the need for the fighter wing in the southern region.

In a confidential report to Congress, the Defense Department warned: "Recent analysis taking into account the ongoing changes in the European security environment have reaffirmed the absolutely critical need of an in-place wing of F-16s in the southern flank of NATO. From a military perspective, the 401st Tactical Fighter Wing is irreplaceable."

"Who are we defending the southern flank from?" asked Senator Jim Sasser, the chairman of the Senate Appropriations Committee's military construction subcommittee.

Mr. Sasser, Democrat of Tennessee, said he planned to propose legislation that would allow the United States to contribute about \$50 million to a scaled-down, "bare bones" base.

Military officials say privately that the base also would provide well-placed air power to counter problems in the Middle East. The planes, for example, are close enough to Libya to conduct a mission without refueling, officials said.

The battle over the Crotone base began two years ago when the Spanish government ordered NATO and U.S. Air Force planes out of the large Torrejon Air Force Base.

U.S. officials, citing budget problems even then, responded by saying it would relocate the 401st Tactical Fighter Wing in the United States.

That brought protests from NATO allies and an offer from Italy to accept the planes. But Italy rejected a site selected by a U.S. Air

"I am fully aware that asking for money now to build a new base in Europe is particularly disagreeable."

General John R. Galvin

Force search team and insisted that the base be constructed near isolated, economically depressed Crotone, in the arch of the boot of southern Italy.

The location further antagonized U.S. officials when local farmers demanded \$12,000 an acre (\$30,000 a hectare) for their arid farmland, far more than the officials believed the land was worth.

"It's become more of an economic development project for southern Italy," Mrs. Schroeder said. "As

we close bases in the United States, economic development is not allowed as an excuse to keep a base open."

And there are still other problems that have little to do with congressional politics or a weakened Soviet threat.

The Crotone base will not be finished until at least three years after the 401st leaves Spain in 1992, forcing the United States to consider temporary relocations in West Germany, northern Italy and the United States.

U.S. and Italian officials have been unable to reach an agreement on a training and bombing range near the planned Crotone facility. If the Italian government does not offer adequate training space, the fighter planes would be forced to fly to Turkey for training missions.

A University of Texas archaeological team has asserted that the planned construction could destroy relics from the 7th century B.C. that lie beneath the planned base.

The U.S. costs for relocating the fighter wing from Spain go beyond the \$262 million that the agreement calls for the United States to provide toward the construction of Crotone. U.S. taxpayers are scheduled to finance another \$100 million in costs associated with moving other units out of Spain, severance pay for Spanish civilian employees who had worked at the base and environmental clean-up projects.

MOSCOW: Major Change in Government Predicted

(Continued from page 1)

restore governmental authority, Mr. Solomons said.

Either the scenarios would signal the abandonment of Mr. Gorbachev's main policies.

The Soviet performance was assessed by Oleg T. Bogomolov, a Soviet economist with a strong professional reputation in the West.

"We have rejected the government's concept" as a halfway house that cannot succeed, he said.

It was unclear whether Mr. Bogomolov, who is considered a front-runner to become prime minister of the Russian Republic under Mr. Yeltsin, referred to views of leaders in the Russian republic.

With Mr. Yeltsin seen likely to outdistance Mr. Gorbachev in offering a sharper break with Soviet practices and moves toward a free-market economy, Mr. Gorbachev has started hinting that he might consider more radical changes, even expressing enthusiasm for the philosophy of Milton Friedman, the economist often mentioned as a

mentor for the Reagan administration's policies.

In remarks apparently intended to hearten Soviet consumers, Mr. Gorbachev said this weekend that Mr. Friedman, whom he met in California last week, had cited the postwar recovery of Japan as a precedent that might provide encouragement for believing that the Soviet Union could change dramatically for the better.

He quoted Mr. Friedman as saying that energy and initiative — traits that Mr. Gorbachev has sought to encourage among Soviet workers, with little apparent success — appeared to be lacking in Japanese workers until a new economic environment changed their outlook and behavior.

But experts at the Stockholm conference felt that Mr. Gorbachev may have run out of time because he is increasingly in competition with Soviet republic leaders.

The republics' leaders, often accused of being populist, may also be able to appeal to nationalist sen-

timents to exact the sacrifices and efforts needed for swift change of the kind that appears to offer hope in Poland.

Even though Mr. Gorbachev has managed to avoid blame for past mistakes and distance himself from Mr. Ryzhkov's policies, the shift of power toward republics "clearly limits the effectiveness" of any central government in a new way, Mr. Solomons reported.

The emergence of these nationalist forces, he said, would also be likely to block any attempt by Soviet leaders to return to a "command economy" controlled from Moscow, the experts concluded.

But military intervention, the analysts said, also was unlikely because of the low morale of military forces and conflicting views among officers. Even special units loyal to the Interior Ministry, which have spearheaded the crackdown on ethnic unrest in some republics, might disobey orders to move against the new leaders in Russia, an expert said.

José Figueres, 83, Dies; Ex-Leader of Costa Rica

New York Times Service

José Figueres Ferrer, 83, the Costa Rican leader who helped install democracy in his homeland in 1948 and was president three times, died Friday of a heart attack, his physician said. He lived in San José, the capital.

As a young planter, Mr. Figueres led an irregular force of 700 men that defeated Communist-led guerrillas and the Costa Rican Army, which had joined forces to keep an elected candidate from taking office as president.

Mr. Figueres became president in 1948 at the head of a provisional junta that held power for 18 months. During that term he took the unusual step of dissolving the army as a precaution against the militarism that has perennially thwarted or undercut democracy in Central America.

He oversaw measures, including the adoption of social security and the nationalization of banks, which are widely seen as having given Costa Rican democracy a firm foundation.

He was elected president for two terms, from 1953 to 1958 and from 1970 to 1974.

Admiral Alfredo Poveda, 64, Ecuador Leader in Late '70s

QUITO, Ecuador (AP) — Vice Admiral Alfredo Poveda Burbano, 64, who led a military junta that ruled Ecuador from 1976 until turning over power to a civilian government in 1979, died Thursday of a heart attack in Miami.

Although he reached power through the military hierarchy, he set up a system to return the government to civilian power.

700 Are Saved From Cruise Ship Off Massachusetts

The Associated Press

WOODS HOLE, Massachusetts — Nearly 700 passengers were ferried ashore Sunday after their cruise liner ran aground in heavy fog and began taking water. No injuries were reported.

The liner Bermuda Star, en route from New York to Nova Scotia, opened its hull on submerged rocks about two miles (3.2 kilometers) from here, Coast Guard officials said. It was leaking fuel as well as taking on water.

"No lives are in jeopardy as far as I know," said a Coast Guard spokesman.

Hopes that the ship could limp into harbor for repairs after being hauled off the rocks were dashed when tugboats worked for 45 minutes but were unable to free it, the Coast Guard said.

ACROSS

- 1 Walt role in "The Waltons"
- 5 Day or Hayward
- 10 Foster a felony
- 14 Poker players' "bullets"
- 15 Loosen
- 16 Went by bus
- 17 Game surface for Kasperov
- 19 Wise
- 20 Indian shelters
- 21 Touched up old masters
- 23 Shadowed
- 25 Plus
- 26 Globe
- 28 Opposite of NW
- 30 Steeple
- 32 Word with keeper or Hitter
- 34 Explosive
- 36 Classy
- 38 Fly high
- 39 Author-newscaster Newman
- 40 Roman robe
- 42 Danley of the N.B.A.
- 44 Not even
- 46 Smoke and fog
- 48 Allow entrance

Solution to Friday's Puzzle

BACK KAFKA CATS
ELIE ALIEN OMOO
NATTERINGNABOBS
DRYCLEAN EMBRYO
HALS ETAL
DOREMI BATHETIC
AMES ADAGE RILL
DAW AWL MIA
ONER FILES ROAM
SIDECARS UPENDS
MADY ATOM
ACCORD ONLOOKER
WHIRLINGDERRVISH
EATS SORER ETTE
DREE TRESS SHEA

DOWN

- 1 Covenant
- 2 Yearn
- 3 Emulate Tom of Coventry
- 4 Charm or intellect
- 5 Inherent
- 6 One, in Pisa
- 7 Look fixedly
- 8 Ventilated
- 9 Beatty and Sparks of movies
- 10 Firebugs
- 11 Executives' conference areas
- 12 Advantage
- 13 Started golfing
- 14 Yellow and Black, e.g.
- 16 Nocturnal sound at camp
- 18 Afford temporarily
- 20 Pelion's supporter
- 21 V. Harper's TV character
- 22 Promenade platforms near beaches
- 23 Small shore birds
- 24 Rye disease
- 25 Archbishops' jurisdiction
- 26 Couple
- 27 Labels
- 28 False god
- 29 Misbehavior
- 30 Give the cold shoulder to
- 31 Column base
- 32 Part of an X-ray machine
- 33 Wear away
- 34 At that time
- 35 Rocky, to
- 36 Stallone
- 37 Munich's river
- 38 Spanker or crossjack
- 39 Russian river
- 40 Ferber or Milly
- 41 Incarnadine

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Shamir Projects A Moderate Tone

But Hard-Line Allies See Widening Of Settlements and Arab Crackdown

By Jackson Diehl

Washington Post Service

JERUSALEM — Acting Prime Minister Yitzhak Shamir has denied that his new coalition government will shift Israel toward narrow rightist policies.

But several hard-line leaders in the incoming administration predicted that the government would expand Jewish settlements in the occupied territories while cracking down on the continuing Arab uprising.

In an interview broadcast on Israeli radio, Mr. Shamir said the coalition of nationalist and religious parties — formed after a three-month political crisis — represents the majority of the people and will continue the diplomatic initiatives of the previous government, which matched Mr. Shamir's Likud Party with the Labor Party.

The new coalition, which holds a two-vote majority in the 120-member Knesset, or parliament, is due to seek a vote of confidence on Monday.

"We are not interested in any wars, in any confrontations with any neighbors," Mr. Shamir said. "We want peace with all our neighbors and the only way to achieve this peace is to sit down around a table of negotiations."

"I think the Arab world will have to decide" to negotiate with Israel about the conditions of peace, he said.

The statement reflected the new government's apparent intention to emphasize a call for bilateral negotiations between Israel and Arab states, while playing down the Israeli-Palestinian talks that the United States and Egypt have tried to arrange.

Asked what Israel's position on the proposed Israeli-Palestinian negotiations would now be, Mr. Shamir avoided a direct response, saying, "It's too early to talk now about the first operational steps" of the government.

His moderate tone contrasted with tough declarations issued by

leaders in the Likud and the small nationalist parties now allied with it.

Ariel Sharon, leader of opposition to the peace process within Likud during the past government and now the incoming housing minister, told Israeli radio that one of the main goals of the new administration would be to restore law and order in the occupied West Bank and Gaza Strip.

Mr. Sharon, who in the past has advocated the mass expulsion of Palestinian leaders from the territories, added: "I think we now have a homogeneous government which can take a decision, and will do so."

His remarks reflected widespread expectation that the new government will end six years of stagnation under the unity governments and three months of governmental paralysis that followed the Labor-Likud coalition's collapse March 15.

Both Mr. Sharon and Gynia Cohen, a leader of the rightist Tehiya-Zionist Revival Movement, predicted that the government would step up Jewish settlement in the occupied territories despite opposition by the Bush administration and a warning by the Soviet president, Mikhail S. Gorbachev, that it could lead to the suspension of Jewish immigration to Israel from the Soviet Union.

"Israel has been building all over the country, and that's what we're going to do," Mr. Sharon said. "We are not going to interfere where the Jews will be living."

"Everyone can live where he chooses," he said.

"What is happening really," said the Labor Party general secretary, Micha Harizi, "is that the Likud is dominated by the forceful political threat and blackmail of Mr. Sharon. Mr. Shamir in the last year has been all the time giving in to initiatives by Mr. Sharon toward the extreme right and against the peace process."

The new foreign minister is expected to be David Levy, 52, a Moroccan-born construction worker who turned politician and joined Mr. Sharon in opposing Israeli-Palestinian talks. Mr. Levy, whose political base lies among Israel's Sephardic Jews, has been questioned by reporters about his ability to serve in his new post because he does not speak English.

"The language will not be an obstacle," Mr. Levy said Sunday on Israeli radio. "I'll surprise everyone. Anyway, there are some English-speaking people who don't understand what you tell them."



FOR NASSER'S SON, A DAY IN COURT — Khaled Abdel Nasser, 40, eldest son of the late President Gamal Abdel Nasser of Egypt, sipping tea over the weekend in a cage for defendants at his trial in Cairo. Mr. Nasser returned to Cairo last week after spending nearly three years abroad as a fugitive. He is being tried along with 19 others for attacks by a terrorist group, Egypt's Revolution, on Israelis and Americans. If convicted, he could be sentenced to death.

Arabs Talk of War With Israel

By Alan Cowell

New York Times Service

CAIRO — Arab and Palestinian commentators have responded to the formation of a conservative Israeli government with forecasts of war, reflecting a mood across the region that blends apprehension, anger and a deepening hostility toward the United States, Israel's main supporter.

"It is a war cabinet, the worst in Israel's history," Salah Khalaf, a senior Palestine Liberation Organization official, said in Tunis, where the PLO has its headquarters. He was responding to the announcement by Yitzhak Shamir of the first coalition government in Israel's history to be formed exclusively of rightist parties.

Commenting on the new government, a Jordanian newspaper, Sawt ash-Sha'ab, said the Arab world should "brace for the ugly option of a new war imposed on the Arab nation."

"Praising peace does not mean dropping our weapons and burying our heads in the sand," Western diplomats said the Arab mood toward Israel and the United States was generally more hostile than it had been for many years.

"The situation is very dangerous," a diplomat said, speaking on condition of anonymity. An immediate focus of concern is the U.S. threat to break off its dialogue with the PLO over the group's refusal to condemn a thwarted sea-borne raid on Israel on May 30.

President George Bush said Friday that his administration was considering a possible breach with the PLO but that it had made no final decision.

Yasser Arafat, who leads the PLO side in the dialogue with the United States, said in Jordan that a break in the contact would "encourage a fierce Israeli crackdown on the Palestinians" who

have been embroiled in a 30-month uprising, known as the intifada, in the occupied West Bank and Gaza Strip.

The dialogue itself has been challenged by some Palestinians who say it has produced no results.

But other Palestinians and Arab diplomats say that Yasser Arafat, the PLO chairman, wishes to retain it because it represents the only political gain secured since the start of the intifada.

Diplomats in Cairo and elsewhere said that with the shift in mood away from avowed moderation, the region's confrontation could escalate.

In this atmosphere, the diplomats said, a break in the U.S.-PLO dialogue could be taken by Arab and Palestinian hard-liners as proof of the futility of pursuing the diplomacy of peace and as justification for new efforts to pursue armed actions against Israel.

Did CIA Tip Trap Mandela?

Report Says Informant in ANC Led to Arrest in '62

By David Johnston

New York Times Service

WASHINGTON — The Central Intelligence Agency played an important role in the arrest in 1962 of Nelson Mandela, the African National Congress leader who was jailed for nearly 28 years before his release four months ago, a news report says.

The intelligence service, using an agent inside the African National Congress, provided South African security officials with precise information about Mr. Mandela's activities that enabled the police to arrest him, said the account by the Cox News Service.

The report quoted an unidentified retired official who said that a senior CIA officer told him, shortly after Mr. Mandela's arrest: "We have turned Mandela over to the South African Security branch. We gave them every detail, what he would be wearing, the time of day, just where he would be."

A spokesman for the agency, Mark Mansfield, declined to comment on the news service report. "As a matter of policy, we do not discuss allegations of intelligence activities," he said.

Reports that American intelligence tipped off the South African officials who arrested Mr. Mandela have circulated for years. Newsweek reported in February that the agency was believed to have been involved.

Mr. Mandela is scheduled to visit the United States beginning June 20 for a five-city tour that will include talks with President George Bush and a speech before Congress.

The news service report said that at the time of Mr. Mandela's arrest in August 1962, the CIA devoted more resources to penetrating the activities of nationalist groups like the African National Congress than did South Africa's then-fledgling security service.

The account said the U.S. intelligence agency was willing to assist in the apprehension of Mr. Mandela because it was concerned that a successful nationalist movement threatened a friendly South African government.

A retired South African intelligence official, Gerard Ludi, was quoted in the report as saying that at the time of Mr. Mandela's capture, the CIA had infiltrated an undercover agent into the inner circle of the African National Congress group in Durban.

That agent provided the intelligence service with detailed accounts of the organization's activities, including information on the whereabouts of Mr. Mandela, then being sought as a fugitive for his anti-apartheid activities.

The morning after a secret dinner with other congress members in

Durban, Mr. Mandela, dressed as a chauffeur, ran into a roadblock. He was immediately recognized and arrested.

The retired official said that be-

cause of concern over the propriety of the CIA's actions in the Mandela case, "higher authorities" required that the State Department approve any similar operations in the future.

Jews Say Mandela Backs Israel on Its Right to Exist

The Associated Press

GENEVA — Leaders from U.S. Jewish groups met with Nelson Mandela on Sunday to discuss the African National Congress leader's stance toward Israel and declared the talks had exceeded their "fondest expectations."

The executive director of the American Jewish Congress, Henry Siegman, said after the meeting that Mr. Mandela had criticized the support for Israel's right to exist within "secure borders."

But Mr. Siegman added that Mr. Mandela had criticized the Israeli government's treatment of Palestinians and called on the government to hold direct talks with the PLO to settle the Palestinian uprising in the territories occupied by Israel.

AT SHERATON LITTLE THINGS MEAN A LOT

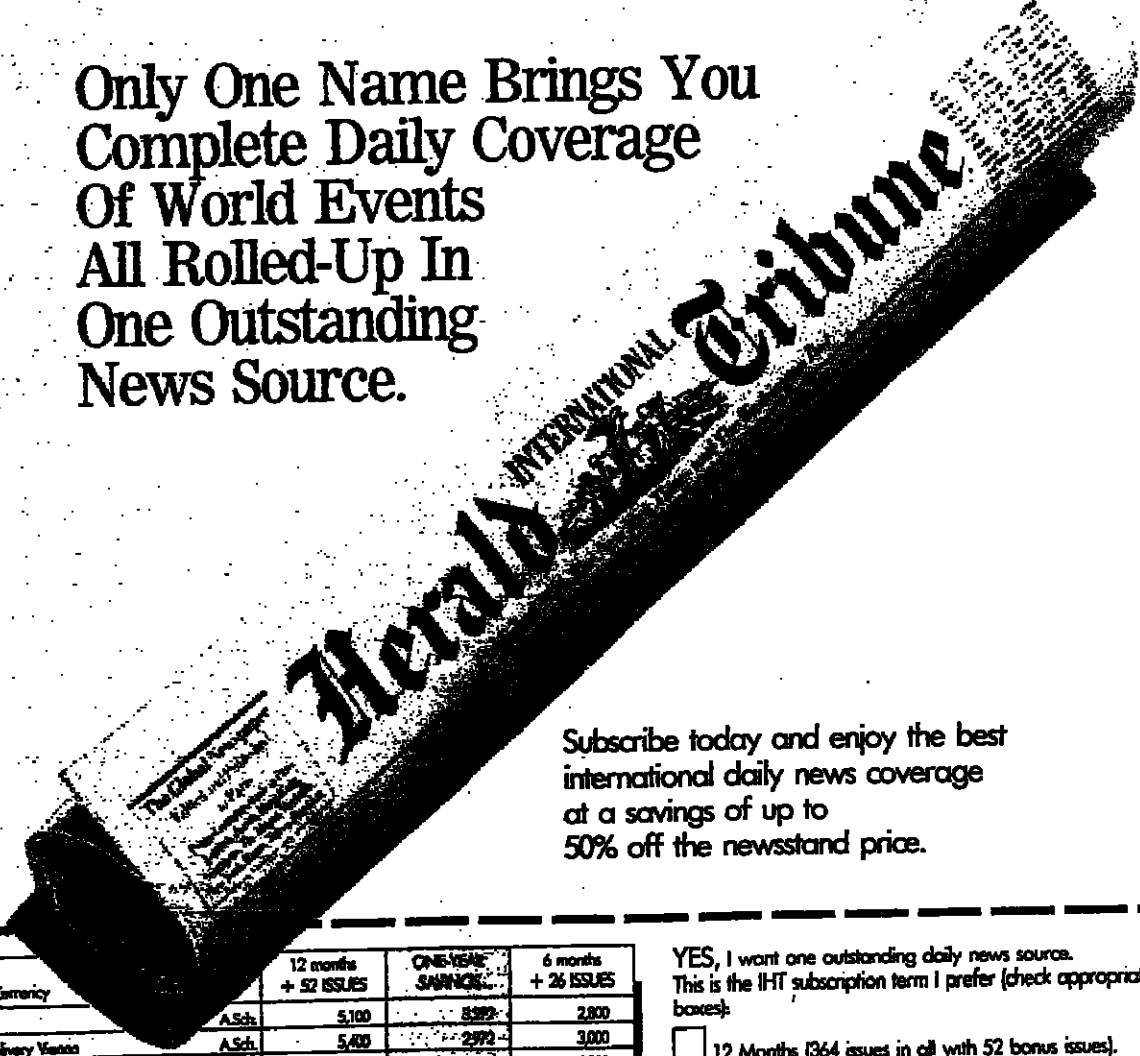
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—hard delivery Vienna	AS\$ 5,400	5,400	3,000
Belgium	B\$ 11,000	11,000	6,000
Denmark	D\$ 3,100	3,100	1,700
Finland	F\$ 2,000	2,000	1,100
France	F\$ 1,600	1,600	880
Germany (West)	D\$ 600	600	320
—hard delivery	D\$ 750	750	380
Greece (Athens)	Dr. 31,000	31,000	16,000
Greece (Athens)	Dr. 41,000	41,000	21,000
—hard delivery Athens	Dr. 45,000	45,000	23,000
Italy	L\$ 4,000	4,000	2,100
—hard delivery	L\$ 4,300	4,300	2,200
Japan	Y\$ 11,000	11,000	6,000
—hard delivery	Y\$ 11,500	11,500	6,200
—hard delivery Madrid	Y\$ 12,000	12,000	6,400
—hard delivery Moscow	Y\$ 12,500	12,500	6,600
—hard delivery Paris	Y\$ 13,000	13,000	6,800
—hard delivery Rome	Y\$ 13,500	13,500	7,000
—hard delivery Seoul	Y\$ 14,000	14,000	7,200
—hard delivery Tokyo	Y\$ 14,500	14,500	7,400
—hard delivery Zurich	Y\$ 15,000	15,000	7,600
—hard delivery London	Y\$ 15,500	15,500	7,800
—hard delivery New York	Y\$ 16,000	16,000	8,000
—hard delivery San Francisco	Y\$ 16,500	16,500	8,200
—hard delivery Sydney	Y\$ 17,000	17,000	8,400
—hard delivery Taipei	Y\$ 17,500	17,500	8,600
—hard delivery Hong Kong	Y\$ 18,000	18,000	8,800
—hard delivery Manila	Y\$ 18,500	18,500	9,000
—hard delivery Singapore	Y\$ 19,000	19,000	9,200
—hard delivery Jakarta	Y\$ 19,500	19,500	9,400
—hard delivery Kuala Lumpur	Y\$ 20,000	20,000	9,600
—hard delivery Bangkok	Y\$ 20,500	20,500	9,800
—hard delivery Colombo	Y\$ 21,000	21,000	10,000
—hard delivery Calcutta	Y\$ 21,500	21,500	10,200
—hard delivery Madras	Y\$ 22,000	22,000	10,400
—hard delivery Bombay	Y\$ 22,500	22,500	10,600
—hard delivery New Delhi	Y\$ 23,000	23,000	10,800
—hard delivery Delhi	Y\$ 23,500	23,500	11,000
—hard delivery Kathmandu	Y\$ 24,000	24,000	11,200
—hard delivery Dhaka	Y\$ 24,500	24,500	11,400
—hard delivery Colombo	Y\$ 25,000	25,000	11,600
—hard delivery Calcutta	Y\$ 25,500	25,500	11,800
—hard delivery Madras	Y\$ 26,000	26,000	12,000
—hard delivery Bombay	Y\$ 26,500	26,500	12,200
—hard delivery New Delhi	Y\$ 27,000	27,000	12,400
—hard delivery Delhi	Y\$ 27,500	27,500	12,600
—hard delivery Kathmandu	Y\$ 28,000	28,000	12,800
—hard delivery Dhaka	Y\$ 28,500	28,500	13,000
—hard delivery Colombo	Y\$ 29,000	29,000	13,200
—hard delivery Calcutta	Y\$ 29,500	29,500	13,400
—hard delivery Madras	Y\$ 30,000	30,000	13,600
—hard delivery Bombay	Y\$ 30,500	30,500	13,800
—hard delivery New Delhi	Y\$ 31,000	31,000	14,000
—hard delivery Delhi	Y\$ 31,500	31,500	14,200
—hard delivery Kathmandu	Y\$ 32,000	32,000	14,400
—hard delivery Dhaka	Y\$ 32,500	32,500	14,600
—hard delivery Colombo	Y\$ 33,000	33,000	14,800
—hard delivery Calcutta	Y\$ 33,500	33,500	15,000
—hard delivery Madras	Y\$ 34,000	34,000	15,200
—hard delivery Bombay	Y\$ 34,500	34,500	15,400
—hard delivery New Delhi	Y\$ 35,000	35,000	15,600
—hard delivery Delhi	Y\$ 35,500	35,500	15,800
—hard delivery Kathmandu	Y\$ 36,000	36,000	16,000
—hard delivery Dhaka	Y\$ 36,500	36,500	16,200
—hard delivery Colombo	Y\$ 37,000	37,000	16,400
—hard delivery Calcutta	Y\$ 37,500	37,500	16,600
—hard delivery Madras	Y\$ 38,000	38,000	16,800
—hard delivery Bombay	Y\$ 38,500	38,500	17,000
—hard delivery New Delhi	Y\$ 39,000	39,000	17,200
—hard delivery Delhi	Y\$ 39,500	39,500	17,400
—hard delivery Kathmandu	Y\$ 40,000	40,000	17,600
—hard delivery Dhaka	Y\$ 40,500	40,500	17,800
—hard delivery Colombo	Y\$ 41,000	41,000	18,000
—hard delivery Calcutta	Y\$ 41,500	41,500	18,200
—hard delivery Madras	Y\$ 42,000	42,000	18,400
—hard delivery Bombay	Y\$ 42,500	42,500	18,600
—hard delivery New Delhi	Y\$ 43,000	43,000	18,800
—hard delivery Delhi	Y\$ 43,500	43,500	19,000
—hard delivery Kathmandu	Y\$ 44,000	44,000	19,200
—hard delivery Dhaka	Y\$ 44,500	44,500	19,400
—hard delivery Colombo	Y\$ 45,000	45,000	19,600
—hard delivery Calcutta	Y\$ 45,500	45,500	19,800
—hard delivery Madras	Y\$ 46,000	46,000	20,000
—hard delivery Bombay	Y\$ 46,500	46,500	20,200
—hard delivery New Delhi	Y\$ 47,000	47,000	20,400
—hard delivery Delhi	Y\$ 47,500	47,500	20,600
—hard delivery Kathmandu	Y\$ 48,000	48,000	20,800
—hard delivery Dhaka	Y\$ 48,500	48,500	21,000
—hard delivery Colombo	Y\$ 49,000	49,000	21,200
—hard delivery Calcutta	Y\$ 49,500	49,500	21,400
—hard delivery Madras	Y\$ 50,000	50,000	21,600
—hard delivery Bombay	Y\$ 50,500	50,500	21,800
—hard delivery New Delhi	Y\$ 51,000	51,000	22,000
—hard delivery Delhi	Y\$ 51,500	51,500	22,200
—hard delivery Kathmandu	Y\$ 52,000	52,000	22,400
—hard delivery Dhaka	Y\$ 52,500	52,500	22,600
—hard delivery Colombo	Y\$ 53,000	53,000	22,800
—hard delivery Calcutta	Y\$ 53,500	53,500	23,000
—hard delivery Madras	Y\$ 54,000	54,000	23,200
—hard delivery Bombay	Y\$ 54,500	54,500	23,400
—hard delivery New Delhi	Y\$ 55,000	55,000	23,600
—hard delivery Delhi	Y\$ 55,500	55,500	23,800
—hard delivery Kathmandu	Y\$ 56,000	56,000	24,000
—hard delivery Dhaka	Y\$ 56,500	56,500	24,200
—hard delivery Colombo	Y\$ 57,000	57,000	24,400
—hard delivery Calcutta	Y\$ 57,500	57,500	24,600
—hard delivery Madras	Y\$ 58,000	58,000	24,800
—hard delivery Bombay	Y\$ 58,500	58,500	25,000
—hard delivery New Delhi	Y\$ 59,000	59,000	25,200
—hard delivery Delhi	Y\$ 59,500	59,500	25,400
—hard delivery Kathmandu	Y\$ 60,000	60,000	25,600
—hard delivery Dhaka	Y\$ 60,500	60,500	25,800
—hard delivery Colombo	Y\$ 61,000	61,000	26,000
—hard delivery Calcutta	Y\$ 61,500	61,500	26,200
—hard delivery Madras	Y\$ 62,000	62,000	26,400
—hard delivery Bombay	Y\$ 62,500	62,500	26,600
—hard delivery New Delhi	Y\$ 63,000	63,000	26,800
—hard delivery Delhi	Y\$ 63,500	63,500	27,000
—hard delivery Kathmandu	Y\$ 64,000	64,000	27,200
—hard delivery Dhaka	Y\$ 64,500	64,500	27,400
—hard delivery Colombo	Y\$ 65,000	65,000	27,600
—hard delivery Calcutta	Y\$ 65,500	65,500	27,800
—hard delivery Madras	Y\$ 66,000	66,000	28,000
—hard delivery Bombay	Y\$ 66,500	66,500	28,200
—hard delivery New Delhi	Y\$ 67,000	67,000	28,400
—hard delivery Delhi	Y\$ 67,500	67,500	28,600
—hard delivery Kathmandu	Y\$ 68,000	68,000	28,800
—hard delivery Dhaka	Y\$ 68,500	68,500	29,000
—hard delivery Colombo	Y\$ 69,000	69,000	29,200
—hard delivery Calcutta	Y\$ 69,500	69,500	29,400
—hard delivery Madras	Y\$ 70,000	70,000	29,600
—hard delivery Bombay	Y\$ 70,500	70,500	29,800
—hard delivery New Delhi	Y\$ 71,000	71,000	30,000
—hard delivery Delhi	Y\$ 71,500	71,500	30,200
—hard delivery Kathmandu	Y\$ 72,000	72,000	30,400
—hard delivery Dhaka	Y\$ 72,500	72,500	30,600
—hard delivery Colombo	Y\$ 73,000	73,000	30,800
—hard delivery Calcutta	Y\$ 73,500	73,500	31,000
—hard delivery Madras	Y\$ 74,000	74,000	31,200
—hard delivery Bombay	Y\$ 74,500	74,500	31,400
—hard delivery New Delhi	Y\$ 75,000	75,000	31,600
—hard delivery Delhi	Y\$ 75,500	75,500	31,800
—hard delivery Kathmandu	Y\$ 76,000	76,000	32,000
—hard delivery Dhaka	Y\$ 76,50		

Herald Tribune

Published With The New York Times and The Washington Post

Another Step by De Klerk

President F. W. de Klerk has taken a vital step toward peaceful resolution of South Africa's racial problems, ending emergency rule in three of its four provinces. Pretoria is now within sight of meeting the African National Congress's preconditions for beginning formal negotiations, and Washington's conditions for ending sanctions.

To lift the sanctions pressure would not be helpful to the talks. But the Bush administration can praise and encourage Mr. de Klerk's efforts in other ways.

Congress overcame Reagan administration objections and imposed economic sanctions on South Africa in 1986. Many Americans believed that these would be no more than a moral gesture. But with remarkable speed the combined pressures of internal revolt and international ostracism brought dramatic change. Enlightened Afrikaner leaders like Mr. de Klerk began to feel the costs and see the practical wisdom in negotiations with black leaders.

Yet South Africa remains an unacceptably racist state, despite all the bold steps taken by Mr. de Klerk since he took power last August—freeing Nelson Mandela and other political prisoners, unbanning the ANC and repealing apartheid laws. Blacks still live oppressed and segregated lives in townships and homelands. They continue to die

at the hands of government security forces. Still, as Mr. de Klerk tries to rein in more militant whites and Mr. Mandela tries to calm black militants, a new and promising biracial center has emerged. It gives hope for early resolution of remaining issues.

In terms of the law governing U.S. sanctions, very few issues remain. The president may waive or modify sanctions once Pretoria frees all political prisoners and meets three of four further conditions: legalizing opposition political groups, ending emergency rule, repealing laws imposing racial segregation, beginning good-faith negotiations between dominant whites and the large black majority. All these are now at least partly achieved, and active negotiations continue. None are beyond the realistic possibility of resolution.

After the release of Nelson Mandela, President George Bush invited both Mr. Mandela and Mr. de Klerk to visit Washington. A scheduling gaffe put Mr. de Klerk's visit a few days ahead of Mr. Mandela's, and the political embarrassment forced a temporary postponement. Timing aside, there need be no question about the principle of America playing host to the most belligerent and bold leader white South Africa has yet produced. Mr. de Klerk surely has earned a Washington welcome.

—THE NEW YORK TIMES

A Good Job at the Fed

Generally speaking, American presidents are more eager to see interest rates fall than the Federal Reserve Board is. They worry more about recessions, while the Fed's overriding responsibility is to defend the integrity of the dollar and keep the dragon of inflation at bay. The political pressure between the White House and the Federal Reserve almost always arises from that central difference. In 1985, at a time when those tensions were running high, the White House nominated Mervyn H. Johnson to the board.

The Reagan administration, and particularly the supply-siders within it, were vehemently suspicious of Paul Volcker, then the chairman of the board, and feared that his campaign against inflation was going to undercut the boom that they were predicting. Mr. Johnson was one of the early supply-side economists and began his career at the Federal Reserve with a dramatic vote against Mr. Volcker in behalf of lower interest rates.

But Mr. Johnson is also a pragmatist by inclination, and he understood clearly the damage that continued warfare within the board would inflict on the economy. As vice chairman, he later worked in harmony with Mr. Volcker and then with the present chairman, Alan Greenspan. More recently he has been among those on the board who have most explicitly resisted the intermit-

tent nudges from President George Bush for easier credit, and from the Treasury for lower foreign exchange rates.

It has been a performance of some significance, for currently the Federal Reserve alone has the job of steering the nation's economy. The budget has been jammed for a decade in the quarreling between the White House and Congress over taxes and spending. That leaves monetary policy — and the Federal Reserve, which runs it — as the sole instrument through which public policy can operate day to day to keep the economy growing. The country owes a lot to the people who have been making its monetary policy.

Until recently, that policy has held the inflation rate at about 4 percent a year. But now growth is slowing, and the cries for easier credit are rising — while inflation is beginning to accelerate again. This year it will probably be over 5 percent, for the first time in nine years. Mr. Johnson intends to resign from the Federal Reserve this summer and return to George Mason University. He can take great satisfaction in the achievements of the board in the years in which he has been there. But its room for maneuver is now narrowing, and his successor is not going to have an easy job.

—THE WASHINGTON POST

Albania Loosens Up

The first Communist regime to be established in postwar Europe, Albania's is just starting to loosen up, becoming the last to do so. In the last decade, this impoverished mountain fastness fronting on the Adriatic became a metaphor, comic but for the grimness of it all, for Balkan eccentricity, self-inflicted isolation and Stalinist barrenness. In recent months, the Albanian leadership has seen the handwriting on the East European wall, and now it turns up offering to adopt the principles of the 1975 Helsinki accords, join the Conference on Security and Cooperation in Europe and resume diplomatic relations with the Soviet Union and the United States — the works.

Asked if Albania would recognize political pluralism and run free elections, an Albanian official said there was no opposition in the country because everybody supported the government. Don't laugh. Albania has no pluralist tradition to revive, and the late dictator Enver Hoxha, who ruled by terror until he died in 1985, killed everyone he imagined had the slightest independent impulse. The current leader, Ramiz Alia,

who came to the Communists from the Fascist youth, was his protégé. Europe is becoming a democratic club. Albania has further to go than any other East European state to show that it is ready to join. Fortunately, there is no strategic reason for the West to lower its standards of membership, and good political and humanitarian reason not to.

Albania's legendary hedgework pose in foreign policy arises from a primitive historical prudence: its bitter experience with five centuries of Ottoman occupation, its World War II travails first with and then against the Axis armies, its vain postwar effort to secure the reliable patronage of distant powers against enemies closer by. As Albania now experiments with opening up, its Balkan focus is sure to be sharpened. The old Stalinism could yield not so much to parliamentary democracy as to renewed and more vigorous nationalistic struggle against Yugoslavia's Serbs, increasingly depicted as oppressors of ethnic Albanians living in Yugoslavia's Kosovo province. Can this be the new Europe?

—THE WASHINGTON POST

No More Faraway Lands

Now that communism is in retreat, most Americans care all that much about NATO or the messy Third World? Not really, argues Irving Kristol, a panjandrum of neo-conservatism, in *The Wall Street Journal*. He is saddened, for example, by turmoil in Liberia, but he sees no reason why it "should even be within the purview of American foreign policy" — or why *The New York Times* "should be devoting so much space to it." High time, he says briskly, to devote more attention to national interests.

This echoes Neville Chamberlain's famous lament about Britain's preoccupation with a quarrel in a faraway country between people of whom we know nothing.

The prime minister was referring to Czechoslovakia, on the eve of its betrayal at Munich in 1938. If this century teaches any lesson, it is that no country is truly far away — that an assassination in Sarajevo can start a global war, that an AIDS virus in Africa can become a global pestilence.

Faraway places also touch directly on American honor and responsibility. Liberia was peopled by freed American slaves; its flag and constitution were based on the American example. Its economy is dominated by a U.S. rubber company. Its representative, now embattled ruler received \$300

million in U.S. aid — more per capita than any other African country. Whether Washington helps or ignores Liberia makes an enormous difference to Liberians.

Granted, as the Soviet threat has diminished so has the strategic importance to the United States of remote countries. But it diminishes America to suggest that dependent peoples are disposable counters in a Cold War game. Having inspired others to seek freer governments and market economies, should Americans view their struggles with distant impartiality?

In Mr. Kristol's eyes, the debate over the Western alliance and a united Germany is equally overblown. Perhaps, but only if one believes that Europe has wholly outgrown the rivalries and instability that brought on two world wars. It seems a triumph of optimism for Mr. Kristol to conclude that a German decision with regard to NATO should be "up to them, and them alone."

It is possible that Mr. Kristol's shrinking interest in faraway places has something to do with his migration two years ago, with considerable ado, from New York to Washington. Like other émigrés, he has seemingly gone native, his vision blunkered by the Beltway.

—THE NEW YORK TIMES

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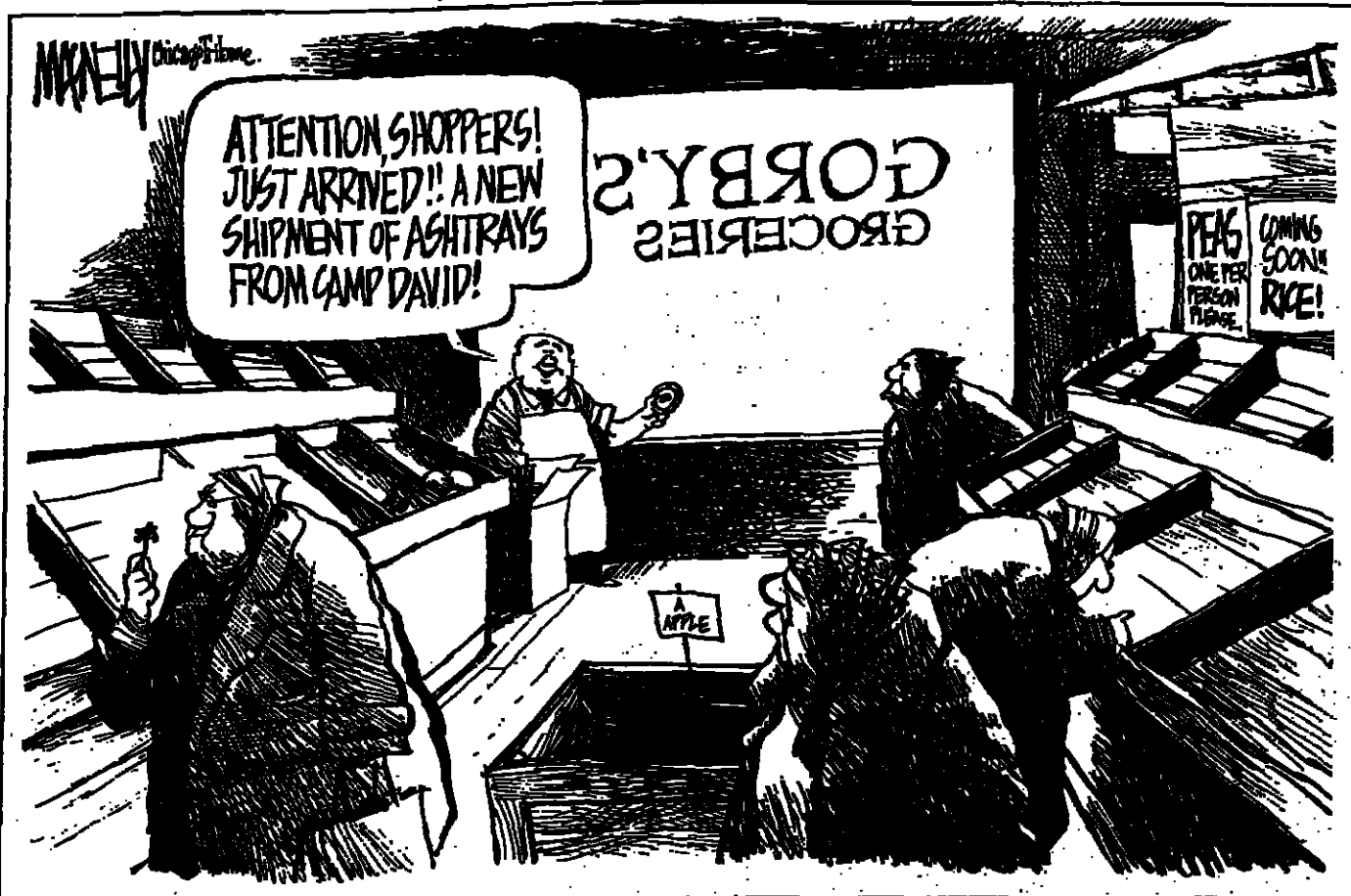
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OPINION



Europe's Future Hinges on the Russian Question

By Flora Lewis

STOCKHOLM — Another period of sudden, dramatic change is beginning in Europe. The implications of last year's upheavals are spreading even before they have been absorbed. East and West Germany are only starting to work out the terms of their unification and the effect on their neighbors, but already the "German question" is being superseded by the Russian question. Moscow does not

Russia alone would be a huge power, much too big to be absorbed as another European state.

have a German policy any longer, and it is now evident that this is because the future of the Soviet Union itself is in doubt. The one thing sure is that it is about to undergo profound transformation.

The Communist Party has lost its capacity to hold the unitary state together and impose its policies. It is on the verge of breaking up, and the state itself is coming apart, whether in many separate pieces or in some loose new union remains to be seen. That is why it is so hard to figure out how to plan for the Soviet place

in a Europe freed from the Cold War. All the talk at a conference here of the Institute for East-West Security Studies has been about how to accommodate the Russians in a new Europe. Even as the experts and officials argue about some "new security structure," word comes that the Warsaw Pact is converting itself into a non-military political group, which may or may not last long enough to address the issue of organizing Europe.

Moscow doubts hopes that this change will provoke a similar transformation of NATO and dissolution of its military organization, but that is not going to happen soon.

In fact, the crumbling in the East and the accelerating decay of the Soviet economic and political system are making many East as well as West Europeans all the more eager to see the Atlantic alliance survive until something equally solid has emerged on the larger European scene, and that is far beyond the horizon.

At the same time, Chancellor Helmut Kohl speaks at a Harvard commencement — deliberately evoking George Marshall's address there that launched the revival of Western Europe 43 years ago — of a coming "United States of Europe."

Chancellor Kohl said it should in-

clude "countries like Austria, Sweden, Norway and Finland," and "not exclude the Poles, Czechs and Slovaks, Hungarians or any other Europeans who want to join."

It is not exactly an invitation to sign up now for the European Community, as the Swedish press excitedly suggested, but it does seem to reopen the question of whether the 12 members should move on to a political union before they admit new members.

Most important, Mr. Kohl did not mention the Soviet Union or Russians at all. They seem to be left out. That is exactly what Moscow policymakers fear most at this point, and what Mikhail Gorbachev tried to establish as unthinkable in his recent summit meeting with George Bush.

But the fact is that whatever happens to its dominions, Russia alone would remain a huge power, extending through Asia to the Pacific — much too big and heavy to be absorbed as another European state. That is the main reason for the trouble in finding a room for it in some new "European architecture."

But the Soviet Union is also very different from the others. There are a lot of uncertainties about how the East European states are going to develop, but at least their intention to

become prosperous democracies and restore their sense of belonging to Europe is visible. There are not many clues about the Soviet Union, and they tend to be contradictory.

Economists from the Soviet Union, the United States and West Germany agreed at a meeting here that the situation was desperate, and they do not think that Mr. Gorbachev is willing or able to do what is needed to reverse the sharp downturn. Oleg Bogomolov said, "We are getting the shock without the therapy."

He told a Radio Yerevan joke circulating in Moscow. A listener calls to say, "Lenin said there could be socialism in one country, but what we need to know is can the whole come to an end in one country?"

Mr. Bogomolov's wife, Tatiana, a scientist, scolded him. "It's no laughing matter," she said dourly. "It's too late for jokes."

In all the confusion, there is reason to expect the unity of Germany, the consolidation of the European Community, the evolution of the East European states into viable economic, political and social partners, an arms control regime that will buttress security. But the future shape of Europe cannot be outlined as long as the Russian question is wide open. Meanwhile, America's presence is essential.

The New York Times

Cambodia: At Long Last, a Plan Worth Backing

By Stephen S. Rosenfeld

WASHINGTON — The United States has recently declared that its policy toward Cambodia is on the right track and does not need to be changed, but it seems to me that its policy is changing and that this is the best thing about it.

The old policy was to support the inclusion of the Khmer Rouge in a power-sharing arrangement meant to arrange elections. That policy had a certain rationale: to bring the Khmer Rouge in so as to contain them, rather than leaving them outside uncontained. But it was an unworkable rationale that disgusted many people and left them suspecting that the Bush administration harbored ulterior motives — to play up to the Khmer Rouge's patrons in China, for instance, or to be faithful to a particular conservative memory of the Vietnam War.

The new policy is to enlist the Chinese, the Soviets, patrons of the Hun Sen regime in Phnom Penh, plus the British and French, in creating an unprecedented United Nations-sponsored entity that would assume working sovereignty over Cambodia and move on from there to hold elections.

That the U.S. government does not say much to acknowledge what I take to be a major policy reversal can be attributed to several considerations. The Bush administration may be embarrassed, and with reason, to say that it has changed course. The United Nations idea is provisional, airy and awash in uncertainty. And the situation on the ground is unusually fluid and murky.

The upshot of all this is that American policy

is poorly understood, or at the least poorly communicated, by many diplomats and others. It is possible to be in a room of specialists and to find no one who is quite sure of what the policy is. Nor has it been a golden hour for journalists. For instance, last month's widely noted ABC News program on Cambodia, which, for all its flaws, correctly undermined the unworkable Indian-backed Khmer Rouge, missed the crucial point that the policy was changing.

The principal author of the new policy is Representative Stephen Solarz. What the New York Democrat did was to break through the weary stalemate in American thinking about Cambodia — the argument between policy advocates who rejected Hun Sen on grounds that he is a client of Vietnam and a former Khmer Rouge with his own crimes to account for, and policy critics who favor supporting Hun Sen as a Cambodian Gorbachev or, at the least, as a shield against the Khmer Rouge. The breakthrough consisted of moving beyond an either/or choice among directly competing Cambodians into a broader framework in which outside forces would try to control and muffle the competition.

Having made himself during the last decade the world's key figure in Cambodia diplomacy, the one person who paid attention and had all the connections, Mr. Solarz was in a position to

hatch a promising idea. He was also in a position to promote it to an able and ready government in Australia, which made it the basis of the current striving for a UN solution.

The Indochina expert Stephen Young finds a "genius" in the Solarz idea: It diffuses the Cambodian political confrontation by parking sovereignty temporarily in a kind of "trust" under the UN Security Council, whose five permanent members are here in rare common flight. It matters greatly, too, that there are some favorable aspects to the timing: The Soviet Union is, in a delicate mode, specialists see interesting hints of a partial Chinese-Vietnamese thawing, the United States needs a better idea, Southeast Asia aches for respite.

UN Secretary-General Javier Pérez de Cuellar offers some well-informed cautions. Before the United Nations takes on such an immense new burden, he says, the "Perm Five" must define a specific UN mandate, bring the Khmer Rouge into a cease-fire so that peacekeepers won't have a security problem, and put up the funds — we're talking up to \$5 billion for 10,000 or 20,000 men.

Last week the Perm Five handed off part of their diplomatic mission to Japan, which has deep pockets and a desire to spread its diplomatic wings. New at international conflict management, the Japanese tripped a bit, but the process stumbles on. It is the only game going, and a desperate long shot, and it would be an unconscionable betrayal of Cambodia not to try to pull it off.

The Washington Post

North Korea's Dictator Could Be the Next to Fall

By Han Mi-Yeon

TOKYO — The past year has seen pro-democracy movements gain momentum from East Germany to Mongolia. Now there are signs that this process may be getting under way in North Korea.

Part of the legacy of Japan's military past is the community of 650,000 ethnic Koreans whose forefathers were forcibly brought to Japan to work as slave labor. Like their ancestral homeland, this community is divided between North and South.

This division is also a product of the Cold War. Soviet troops occupied the northern half of the Korean Peninsula at the end of World War II and established the Democratic People's Republic of Korea. China's intervention in the Korean War increased Chinese influence at the expense of the Soviets. Since then the North has been able to maintain its independence from both the Chinese and the Soviets by playing one off against the other.

Kim Il Sung's ability to maintain this independence enhanced his reputation as national leader. The competition it generated between the Soviets and the Chinese for North Korean support also assured North Korea of maximum economic and military aid. Thus, North Korea was able to make large strides in economic development in the late '50s and the '60s.

South Korea was unable to come up with an independent national leader of its own. The American puppet Syngman Rhee was referred to as a "facsimile" by his U.S. advisers.

Park Chung Hee, who took over in the early '60s, was a product of Japanese military institutions. While Mr. Kim was studying at the top of his class from the Tokyo Military Academy, that was quite remarkable considering the repression and discrimination that Koreans faced at the time.

It is no wonder that Mr. Kim came to be viewed as the only independent national leader by most Koreans living in Japan. About 100,000 of them emigrated to North Korea between 1959 and 1984.

The situation in Korea was changing. In South Korea, the change has been dramatic. Chun Doo Hwan gradually extended human rights and social welfare, a process that has been accelerated by his successor, Roh Tae Woo. While Mr. Chun was never very popular and Mr. Roh's election victory was due to the fragmentation of the opposition, there is no doubt that the standard of living and the level of justice in the South have risen considerably. Koreans in Japan were able to see this for themselves during the Seoul Olympics.

At the same time, illusions about life in North Korea were being smashed. From letters sent to Korean residents in Japan by relatives, it became obvious that the North was an impoverished police state. Because of discrimination in the Japanese school system, many children of Korean residents attended schools run by the North Korean Residents Association, which is loyal to the Pyongyang government. These students could see the disparity between much of

what they were being taught and the reality of a totalitarian North Korea. Since the start of pro-democracy movements in other countries, North Korean residents in Japan have slowly started to speak out. Numerous articles have appeared in leading Japanese newspapers telling the plight of Korean residents who returned to North Korea. The returnees were welcome not only because of the hard currency they brought but also because they could be used to pry open the walls of their affluent relatives in Japan.

However, because the returnees experienced a much better life outside of the North Korean "Paradise on Earth," they are considered a potentially subversive element and isolated and purged accordingly. These returnees have become hostages in every sense of the word. They are held responsible for the action of their relatives in Japan, which is why Korean residents here have been so reluctant to speak out.

Koreans in Japan now appear ready for action. A rally against Kim Il Sung was held in downtown Tokyo in late May. The organizers were all former prominent officials of the North Korean Residents Association. Among their aims is to get the organization, as well as individuals, to cease sending money to North Korea and thus to deprive the regime of its best source of hard currency. It is hoped, would create the kind of financial crisis that would make unification with the South the only way out, or lead to a

Romania-like mass uprising by the country's 20 million people. Then the leader would be overthrown and what has been going on for the last 45 years behind this most opaque section of the bamboo curtain.

The writer, a political analyst in Tokyo, contributed this comment to the Los Angeles Times.

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Cold War: The Victims Have Won

By A. M. Rosenthal

NEW YORK — Max Schmeling looked up from the floor of the boxing ring, saw Joe Louis standing there and said: "Joe, this thing is over. Let's not argue about who won it." Well, he should have said it. The words would have lived forever in the annals of boxing, as will Mike Gorbachev's immortal two sentences at Stanford: "The Cold War is behind us. Let us not wrangle over who won it."

We have lost our sense of humor. Too many people in government and academia actually take him seriously and nod in silent approval.

That could be dangerous. If we are as gently about Mr. Gorbachev's wistful request to ignore reality as a terrible distortion of history will take place and the lessons of the past half century will not have been learned.

To ignore history is to risk repeating it. Humanity's historical record makes that an especially gruesome thought.

The world leaves one thing for sure — Communism certainly did not win, or Mr. Gorbachev would not have been counting capitalists in California. Since he does not recognize the victory of the other side, logically what he is saying is that nobody won. That is not true.

The Cold War does not exist separate in history. It was one battle in the great struggle of the 20th century, the struggle against tyranny. The struggle was won against Hitler, which might not have happened without the blood of the Soviet people. Then Stalin and his successors expanded their own empire of tyranny. What we call the Cold War was the struggle against that particular despotism.

It was fought around the world, still is being fought in the reaches of the empire where the Communist side has not yet been defeated. It is like China, Cuba and North Korea.

Some American specialists on the Soviet Union now say that the Western "bulldoze" against the Soviets was never necessary — just look how the empire collapsed. They have strong voices. CBS hires and presents frequently as its regular Soviet affairs commentator an American academic who is generally seen as an enthusiastic advocate for that position. *Fortune* magazine assures us that the doves were right all along.

Gentlemen, go tell that to the Poles, the Hungarians, the Czechs. They know that without the growth of Western armed power and the necessary match it, the Kremlin could have gone on controlling the evil empire for many decades, starving off collapse by sucking out the resources of the colonies.

But the contest was never simply between Western and Soviet armed forces. Nor a shot was fired between them. Mr. Gorbachev does not want to "wring" because he does not dare either to define the Cold War or to tell the truth about the side that fought his own. But he knows, and one day he may say it.

The side against Communism was an alliance between the West and the people with in the Soviet empire who fought it year after year, for almost a half-century. Millions of Soviet and East European people sacrificed their liberty fighting in that alliance, or were murdered for it. For them, the war was never cold.

It is an unbearable thought that Mr. Gorbachev, who for the past few years was on the side that jailed and killed these fighters in the freedom alliance, he allowed to wave aside their very existence by implying that nobody really won. Simple respect to their demands that we recognize that the Cold War was not between armed camps or even economic systems but between freedom and slavery.

If that is not worth wrangling about, what are the Chinese youngsters and workers fighting for now? Why do they risk death and torture in the filthy jails of the Communist regime?

There is a "cold war" in China — and Tibet — but the lineup of contestants has changed. The fighters for liberty are still on one side and the Communist dictators are on the other. But the Western powers, to their eternal shame, are not to be seen in the struggle.

One day the unutterably nasty men who rule in China will be torn down and apart by their people. If the United States keeps helping the rulers, it will take longer, but they will go. Will we then be told that the Chinese government was really never so fearsome? Will the enemies of the Chinese people and their way of life be bought by waved away — not worth arguing about?

The fighters in the European Cold War did exist, they did fight — and they did win.

The New York Times

100, 75 AND 50 YEARS AGO

1890: Stuffed Cat Hat

PARIS — The *Herald* says in an editorial: It is a curious thing that a person who admires one species of animals invariably shows a want of consideration for other animals. The admirers of birds are now trying to induce ladies to wear stockings on their hats instead of birds. The motive is the protection of birds, but it is grossly unfair to cats. The anti-cat drive is an illustration that a person who has intimate relations with birds cannot be trusted to do justice to other animals.

1915: Turkish Defence

LONDON — Despatches from Salonica report that at the last meeting of the Committee of Union and Progress it was decided to sacrifice everything to the defence of Constantinople. The progress of the allies in the Dardanelles has convinced the Young Turks to abandon the campaigns on other fronts so that reinforcements may be sent to Constantinople.

1940: Italy Declares War

PARIS — Italy declared war on France and Great Britain yesterday [June 10], Mussolini, after informing the French Ambassador in Rome through Foreign Minister Ciano, that Italy was only fulfilling its commitment to Hitler, ordered Italian land, sea and air forces to move at once. At 12 noon, from the Palazzo Venezia balcony, Rome, told massed Black Shirts Italy would war against the "plutocratic and reactionary democracies." He specifically pledged to Switzerland and Balkan powers that they would not be attacked.

WASHINGTON — "On this day the hand with the knife plunged into the back of its neighbor," President Roosevelt declared in a speech broadcast from the University of Virginia. He said that the United States government had made every effort in Rome to keep the war from spreading and had been able to give Mussolini assurance that Italy's voice would be heard at the peace conference after the war.

Cold War The Victims Have Won

By A. M. Rosenberg
NEW YORK

NEW YORK — When Clinton looked up from the floor, he saw Joe Louis standing ring, saw Joe Louis there and said: "Joe, this thing is not argue about who won. Well, he should have won. We would have lived through the politics of champagne, as well as Gorbachev's immoral policies at Stanford." The Clinton said: "The Cold War is over. Let us not argue who won it."

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The side against Communism: alliance between the West and the Soviet empire, eight years after the end of the century. Millions of Soviet European people suffered, fighting in that area, murdered for it. For the war was never cold.

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front line, be allowed to remain
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...the day the authoritarian rule in China will be torn apart by their people if the state keeps holding the people longer, but they will then be told that the government was really new. Will the suffering of the people and their money be wasted and brought up in arguing about the fighters in the Europe did exist, they did fight and win.

did not.
The New York Times

YEARS AGO

40: Italy Declared

IS — Italy
ce and Great Britain
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French Ambassador
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Dollar Straights

Issue	Est. Mar. Price	Spd. Vld. Test
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Governments / International

[illegible][illegible]

Banks & Finance

[illegible]

Global Corporates

[illegible][illegible][illegible]

Issuer	Cou	Mat	Price	Yld	Next
				Tran	
Zarox	15	9/8	107 1/2	9.65	1/25
Zarox Corp	25	9/8	109 1/2	9.91	1/25

Third World					
Agro 50	15	9/8	105	12.91	
Bancomex	15	9/8	109 1/2	13.06	
Bancomex	25	9/8	110 1/2	13.21	
Bancomex	35	9/8	111 1/2	13.36	
Bancomex	45	9/8	112 1/2	13.51	
Bancomex	55	9/8	113 1/2	13.66	
Bancomex	65	9/8	114 1/2	13.81	
Bancomex	75	9/8	115 1/2	13.96	
Bancomex	85	9/8	116 1/2	14.11	
Bancomex	95	9/8	117 1/2	14.26	
Bancomex	105	9/8	118 1/2	14.41	
Bancomex	115	9/8	119 1/2	14.56	
Bancomex	125	9/8	120 1/2	14.71	
Bancomex	135	9/8	121 1/2	14.86	
Bancomex	145	9/8	122 1/2	15.01	
Bancomex	155	9/8	123 1/2	15.16	
Bancomex	165	9/8	124 1/2	15.31	
Bancomex	175	9/8	125 1/2	15.46	
Bancomex	185	9/8	126 1/2	15.61	
Bancomex	195	9/8	127 1/2	15.76	
Bancomex	205	9/8	128 1/2	15.91	
Bancomex	215	9/8	129 1/2	16.06	
Bancomex	225	9/8	130 1/2	16.21	
Bancomex	235	9/8	131 1/2	16.36	
Bancomex	245	9/8	132 1/2	16.51	
Bancomex	255	9/8	133 1/2	16.66	
Bancomex	265	9/8	134 1/2	16.81	
Bancomex	275	9/8	135 1/2	16.96	
Bancomex	285	9/8	136 1/2	17.11	
Bancomex	295	9/8	137 1/2	17.26	
Bancomex	305	9/8	138 1/2	17.41	
Bancomex	315	9/8	139 1/2	17.56	
Bancomex	325	9/8	140 1/2	17.71	
Bancomex	335	9/8	141 1/2	17.86	
Bancomex	345	9/8	142 1/2	18.01	
Bancomex	355	9/8	143 1/2	18.16	
Bancomex	365	9/8	144 1/2	18.31	
Bancomex	375	9/8	145 1/2	18.46	
Bancomex	385	9/8	146 1/2	18.61	
Bancomex	395	9/8	147 1/2	18.76	
Bancomex	405	9/8	148 1/2	18.91	
Bancomex	415	9/8	149 1/2	19.06	
Bancomex	425	9/8	150 1/2	19.21	
Bancomex	435	9/8	151 1/2	19.36	
Bancomex	445	9/8	152 1/2	19.51	
Bancomex	455	9/8	153 1/2	19.66	
Bancomex	465	9/8	154 1/2	19.81	
Bancomex	475	9/8	155 1/2	19.96	
Bancomex	485	9/8	156 1/2	20.11	
Bancomex	495	9/8	157 1/2	20.26	
Bancomex	505	9/8	158 1/2	20.41	
Bancomex	515	9/8	159 1/2	20.56	
Bancomex	525	9/8	160 1/2	20.71	
Bancomex	535	9/8	161 1/2	20.86	
Bancomex	545	9/8	162 1/2	21.01	
Bancomex	555	9/8	163 1/2	21.16	
Bancomex	565	9/8	164 1/2	21.31	
Bancomex	575	9/8	165 1/2	21.46	
Bancomex	585	9/8	166 1/2	21.61	
Bancomex	595	9/8	167 1/2	21.76	
Bancomex	605	9/8	168 1/2	21.91	
Bancomex	615	9/8	169 1/2	22.06	
Bancomex	625	9/8	170 1/2	22.21	
Bancomex	635	9/8	171 1/2	22.36	
Bancomex	645	9/8	172 1/2	22.51	
Bancomex	655	9/8	173 1/2	22.66	
Bancomex	665	9/8	174 1/2	22.81	
Bancomex	675	9/8	175 1/2	22.96	
Bancomex	685	9/8	176 1/2	23.11	
Bancomex	695	9/8	177 1/2	23.26	
Bancomex	705	9/8	178 1/2	23.41	
Bancomex	715	9/8	179 1/2	23.56	
Bancomex	725	9/8	180 1/2	23.71	
Bancomex	735	9/8	181 1/2	23.86	
Bancomex	745	9/8	182 1/2	24.01	
Bancomex	755	9/8	183 1/2	24.16	
Bancomex	765	9/8	184 1/2	24.31	
Bancomex	775	9/8	185 1/2	24.46	
Bancomex	785	9/8	186 1/2	24.61	
Bancomex	795	9/8	187 1/2	24.76	
Bancomex	805	9/8	188 1/2	24.91	
Bancomex	815	9/8	189 1/2	25.06	
Bancomex	825	9/8	190 1/2	25.21	
Bancomex	835	9/8	191 1/2	25.36	
Bancomex	845	9/8	192 1/2	25.51	
Bancomex	855	9/8	193 1/2	25.66	
Bancomex	865	9/8	194 1/2	25.81	
Bancomex	875	9/8	195 1/2	25.96	
Bancomex	885	9/8	196 1/2	26.11	
Bancomex	895	9/8	197 1/2	26.26	
Bancomex	905	9/8	198 1/2	26.41	
Bancomex	915	9/8	199 1/2	26.56	
Bancomex	925	9/8	200 1/2	26.71	
Bancomex	935	9/8	201 1/2	26.86	
Bancomex	945	9/8	202 1/2	27.01	
Bancomex	955	9/8	203 1/2	27.16	
Bancomex	965	9/8	204 1/2	27.31	
Bancomex	975	9/8	205 1/2	27.46	
Bancomex	985	9/8	206 1/2	27.61	
Bancomex	995	9/8	207 1/2	27.76	
Bancomex	1005	9/8	208 1/2	27.91	
Bancomex	1015	9/8	209 1/2	28.06	
Bancomex	1025	9/8	210 1/2	28.21	
Bancomex	1035	9/8	211 1/2	28.36	
Bancomex	1045	9/8	212 1/2	28.51	
Bancomex	1055	9/8	213 1/2	28.66	
Bancomex	1065	9/8	214 1/2	28.81	
Bancomex	1075	9/8	215 1/2	28.96	
Bancomex	1085	9/8	216 1/2	29.11	
Bancomex	1095	9/8	217 1/2	29.26	
Bancomex	1105	9/8	218 1/2	29.41	
Bancomex	1115	9/8	219 1/2	29.56	
Bancomex	1125	9/8	220 1/2	29.71	
Bancomex	1135	9/8	221 1/2	29.86	
Bancomex	1145	9/8	222 1/2	30.01	
Bancomex	1155	9/8	223 1/2	30.16	
Bancomex	1165	9/8	224 1/2	30.31	
Bancomex	1175	9/8	225 1/2	30.46	
Bancomex	1185	9/8	226 1/2	30.61	
Bancomex	1195	9/8	227 1/2	30.76	
Bancomex	1205	9/8	228 1/2	30.91	
Bancomex	1215	9/8	229 1/2	31.06	
Bancomex	1225	9/8	230 1/2	31.21	
Bancomex	1235	9/8	231 1/2	31.36	
Bancomex	1245	9/8	232 1/2	31.51	
Bancomex	1255	9/8	233 1/2	31.66	
Bancomex	1265	9/8	234 1/2	31.81	
Bancomex	1275	9/8	235 1/2	31.96	
Bancomex	1285	9/8	236 1/2	32.11	
Bancomex	1295	9/8	237 1/2	32.26	
Bancomex	1305	9/8	238 1/2	32.41	
Bancomex	1315	9/8	239 1/2	32.56	
Bancomex	1325	9/8	240 1/2	32.71	
Bancomex	1335	9/8	241 1/2	32.86	
Bancomex	1345	9/8	242 1/2	33.01	
Bancomex	1355	9/8	243 1/2	33.16	
Bancomex	1365	9/8	244 1/2	33.31	
Bancomex	1375	9/8	245 1/2	33.46	
Bancomex	1385	9/8	246 1/2	33.61	
Bancomex	1395	9/8	247 1/2	33.76	
Bancomex	1405	9/8	248 1/2	33.91	
Bancomex	1415	9/8	249 1/2	34.06	
Bancomex	1425	9/8	250 1/2	34.21	
Bancomex	1435	9/8	251 1/2	34.36	
Bancomex	1445	9/8	252 1/2	34.51	
Bancomex	1455	9/8	253 1/2	34.66	
Bancomex	1465	9/8	254 1/2	34.81	
Bancomex	1475	9/8	255 1/2	34.96	
Bancomex	1485	9/8	256 1/2	35.11	
Bancomex	1495	9/8	257 1/2	35.26	
Bancomex	1505	9/8	258 1/2	35.41	
Bancomex	1515	9/8	259 1/2	35.56	
Bancomex	1525	9/8	260 1/2	35.71	
Bancomex	1535	9/8	261 1/2	35.86	
Bancomex	1545	9/8	262 1/2	36.01	
Bancomex	1555	9/8	263 1/2	36.16	
Bancomex	1565	9/8	264 1/2	36.31	
Bancomex	1575	9/8	265 1/2	36.46	
Bancomex	1585	9/8	266 1/2	36.61	
Bancomex	1595	9/8	267 1/2	36.76	
Bancomex	1605	9/8	268 1/2	36.91	
Bancomex	1615	9/8	269 1/2	37.06	
Bancomex	1625	9/8	270 1/2	37.21	
Bancomex	1635	9/8	271 1/2	37.36	
Bancomex	1645	9/8	272 1/2	37.51	
Bancomex	1655	9/8	273 1/2	37.66	
Bancomex	1665	9/8	274 1/2	37.81	
Bancomex	1675	9/8	275 1/2	37.96	
Bancomex	1685	9/8	276 1/2	38.11	
Bancomex	1695	9/8	277 1/2	38.26	
Bancomex	1705	9/8	278 1/2	38.41	
Bancomex	1715	9/8	279 1/2	38.56	
Bancomex	1725	9/8	280 1/2	38.71	
Bancomex	1735	9/8	281 1/2	38.86	
Bancomex	1745	9/8	282 1/2	39.01	
Bancomex	1755	9/8	283 1/2	39.16	
Bancomex	1765	9/8	284 1/2	39.31	
Bancomex	1775	9/8	285 1/2	39.46	
Bancomex	1785	9/8	286 1/2	39.61	
Bancomex	1795	9/8	287 1/2	39.76	
Bancomex	1805	9/8	288 1/2	39.91	
Bancomex	1815	9/8	289 1/2	40.06	
Bancomex	1825	9/8	290 1/2	40.21	
Bancomex	1835	9/8	291 1/2	40.36	
Bancomex	1845	9/8	292 1/2	40.51	
Bancomex	1855	9/8	293 1/2	40.66	
Bancomex	1865	9/8	294 1/2	40.81	
Bancomex	1875	9/8	295 1/2	40.96	
Bancomex	1885	9/8	296 1/2	41.11	
Bancomex	1895	9/8	297 1/2	41.26	
Bancomex	1905	9/8	298 1/2	41.41	
Bancomex	1915	9/8	299 1/2	41.56	
Bancomex	1925	9/8	300 1/2	41.71	
Bancomex	1935	9/8	301 1/2	41.86	
Bancomex	1945	9/8	302 1/2	42.01	
Bancomex	1955	9/8	303 1/2	42.16	
Bancomex	1965	9/8	304 1/2	42.31	
Bancomex	1975	9/8	305 1/2	42.46	
Bancomex	1985	9/8	306 1/2	42.61	
Bancomex	1995	9/8	307 1/2	42.76	
Bancomex	2005	9/8	308 1/2	42.91	
Bancomex	2015	9/8	309 1/2	43.06	
Bancomex	2025	9/8	310 1/2	43.21	
Bancomex	2035	9/8	311 1/2	43.36	
Bancomex	2045	9/8	312 1/2	43.51	
Bancomex	2055	9/8	313 1/2	43.66	
Bancomex	2065	9/8	314 1/2	43.81	
Bancomex	2075	9/8	315 1/2	43.96	
Bancomex	2085	9/8	316 1/2	44.11	
Bancomex	2095	9/8	317 1/2	44.26	
Bancomex	2105	9/8	318 1/2	44.41	
Bancomex	2115	9/8	319 1/2	44.56	
Bancomex	2125	9/8	320 1/2	44.71	
Bancomex	2135	9/8	321 1/2	44.86	
Bancomex	2145	9/8	322 1/2	45.01	
Bancomex	2155	9/8	323 1/2	45.16	
Bancomex	2165	9/8	324 1/2	45.31	
Bancomex	2175	9/8	325 1/2	45.46	
Bancomex	2185	9/8	326 1/2	45.61	
Bancomex	2195	9/8	327 1/2	45.76	
Bancomex	2205	9/8	328 1/2	45.91	
Bancomex	2215	9/8	329 1/2	46.06	
Bancomex	2225	9/8	330 1/2	46.21	</

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MUTUAL FUNDS

Figures as of close of trading Friday, June 8.

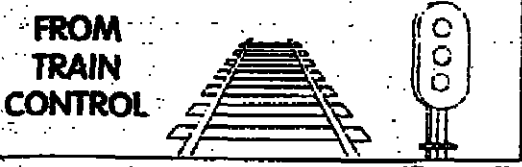
MUTUAL FUNDS

Figures as of close of trading Friday, June 8.

NEW YORK (AP) The following table shows the closing prices of the mutual funds listed on the New York Stock Exchange on Friday, June 8, 1973. The funds are listed in alphabetical order by name. The prices are in dollars and cents. The funds are listed in alphabetical order by name. The prices are in dollars and cents.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
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AGENCY RATE

Week's Mail



BONDS

A Forgiving Muni Market Buys New WPPSS Issue

By Diana B. Henriques
New York Times Service

NEW YORK — Is it a hard time for debtors? Not in the municipal bond market. Last week, the once notorious Washington Public Power Supply System came to market to sell \$600 million worth of tax-exempt bonds. This agency's nickname is "Whoops," in recognition of its apparent inability to get nuclear power plants finished on time and on budget.

In 1983, it mothballed two unfinished plants and defaulted on \$2.25 billion in municipal bonds, despite dire warnings from Wall Street that any debtor who committed such a heinous act would never again be welcome at the lender's trough.

But "forgive and forget" is apparently the muni market's motto. When the WPPSS issue came to market last week, its second sale since the default, it was very happily received, according to the bond analyst firm of Delphis Hanover in Litchfield, Connecticut.

Indeed, demand was so strong that the power authority was able to boost the size of the issue to \$875 million and still get yields that showed no trace of retribution.

Of course, the overall market was in a good mood early in the week, with the Dow Jones industrial average shooting up more than 34 points on Monday.

It later gave up those points and more, plunging almost 35 points on Friday, to close at 2862.38.

But Laszlo Birinyi, head of the investment analysis firm of Birinyi Associates, does not believe the market has made a fundamental turn.

"This was the first day for real significant profit-taking, but there is no indication that changed," he said.

Through the upheaval the bond market remained unruffled. And defenders of the muni market's mentality pointed out that credit agencies recently upgraded the power authority's rating.

But that hardly explains the reception the same market gave to the short-term notes sold on Thursday by New York State, whose deteriorating fiscal health has led to its credit rating being lowered in recent months.

The New York State tax and revenue anticipation note issue, totaling \$4.1 billion, was as warmly welcomed as the WPPSS bonds. Originally priced to yield 6.15 percent, the notes were so popular that the underwriter, Shearson Lehman Hutton, was able to pare the offering yield to 6.10 percent.

Market analysts said the demand came equally from institutional and individual buyers.

"It was as if there had been no downgrading at all," one trader marvelled.

Does this mean that New York is a stronger state than the credit-watchers think it is? Probably not.

The big test for the bond markets will come at the end of this week, with the government's inflation signals: the producer price index on Thursday, the consumer price index on Friday.

"I think the figures will be roughly in line with a 4 percent annual inflation rate," said Jay Goldinger, a principal at Capital Insight, a specialty brokerage house in Beverly Hills, California.

"It will take something better than that to get the bond market to rally."

In the long-term government securities market, prices had a quiet week, despite the volatility in the stock market. Yields on bonds, notes and bills ended the week virtually unchanged.

One reason, dealers said, was the reluctance of investors and traders to take positions before the flood of economic data due out later this week.

Steven R. Ricchiuto, chief economist at Barclays de Zoete Wedd Securities Inc., said he thought this week's government statistics "will be negative on balance for the fixed-income market. The data will probably show that the economy is not as weak as many think, but the numbers will also support policy makers at the Fed who remain concerned about inflation. Both factors are negative for the fixed-income market."

The 8.75 percent Treasury bonds maturing in 2020 were being offered late Friday at a price of 103 13/32, to yield 8.43 percent, compared with 8.44 percent a week ago.

The discount rate on the Treasury's 90-day bills was unchanged at 7.75 percent; six-month bills rose four basis points, or hundredths of a percentage point, to 7.64 percent, and the one-year bills edged up a basis point, to 7.52 percent.

Carl Gervitz is away.

Gold Analysts Fear Sharp Declines Are Not Over

By Leigh Bruce
International Herald Tribune

LONDON — Gold traders and analysts are expecting further declines in the price of gold after last week's sharp drop.

The fall on Thursday, the third dramatic decline since March 26, has left the market in a state of "exhaustion" and "apprehension," the traders said.

Most analysts do not believe the nervous quiet that returned to the market after Thursday's decline to a four-year low of \$352.50 an ounce will last. They are virtually unanimous in predicting further declines, with some saying the price will tumble to between \$320 and \$330 an ounce before staging a modest recovery sometime in the fall.

Gold, which has lost about \$60 an ounce since the start of the year, ended last week at \$353.50.

There are many "rumors and half truths" circulating, to which dealers and market makers must respond, said one gold analyst, James Leahy of James Capel in London. "One cannot exclude a massive disappointment leading to liquidation" by nervous investors.

Large sales from unknown sources in the Middle East, fears that the Soviet Union is seeking to sell large quantities of the metal to raise hard currency, and the decline in the price of oil have underpinned the bearish sentiments toward gold and were responsible for Thursday's steep fall of \$4.75 an ounce.

Moreover, growth in demand for gold jewelry has slowed in the all-important U.S. market, and jewelry producers still have well-stocked reserves of the metal.

"People are disillusioned with gold as an investment," maintained Philip Klapwijk of Gold Fields Mineral Services. The downward spiral was triggered March 26 when unknown Saudi Arabian sources dumped large quantities of physical gold in London. Gloom deepened when the same sources repeated the maneuver on May 23. Last Thursday's sales have "created a fear of further liquidation," Mr. Klapwijk said.

"You will have another attempt soon to push it down," Edwin Arnold of Merrill Lynch International said of the price of gold.

The collapse and the lack of confidence that bullion will recover any time soon is expected to accelerate the restructuring plans of already hard-pressed mining companies, industry experts said.

According to Tim Reed, mining director at Smith New Court in London, as much as 40 percent of South African production is uneconomical, making mine closures with thousands of job losses a certainty.

Restructuring is already in full swing in Australia, where job cuts and mine closures were planned even before the price began its free fall.

Gold stocks have also declined, and many analysts are recommending that investors sell shares in gold and gold-mining firms.

"The market for gold is poor in almost every respect," said Mr. Arnold of Merrill Lynch. "Why put your money into something as sterile as gold when you can get such good returns on your investment in the money markets?" he asked.

The analysts also said that interest rates are more likely to rise than fall, especially with the German central bank, the Bundesbank, determined to head off any potential inflationary pressures from Germany.

man reformation. As a result, they say, gold will continue to lack lustre as an investment for some time.

With the price of oil falling, the downward pressure on inflation is likely to be accentuated, undermining the role of gold as a hedge against inflation. "The price of oil is a very important factor in the price of gold," said Mr. Leahy of James Capel. "They tend to follow each other up and down."

He also said the decline in the price of oil might be one explanation for the large sales of gold in the Middle East, as holders of the metal sought to liquidate in anticipation of the decline.

Though rumors about large-scale gold sales by the Soviet Union, which has estimated reserves of 2,000 to 3,500 tons of the metal, to raise hard currency to pay for economic reforms are taken seriously, many analysts are skeptical.

Mr. Leahy dismissed the rumors, which he calls "speculative." Pointing out that the Soviet Union sells about 300 tons of gold each year, he said the Soviets were unlikely to take any action that would undermine a market that brings in billions of dollars in foreign exchange each year.

"It's not in their interest to kill the market off," he asserted.

One explanation for the sudden Middle Eastern sales is that the Soviet Union borrowed money from the Saudis using gold as collateral. When the Soviets fell into arrears, the lenders simply dumped the gold onto the market to avoid absorbing large financial losses.

"One of the great things about the market for physical gold is that there is no published information on who is doing what; only one person knows the truth and that is the person doing it," Mr. Leahy said.

■ **Soviet Gold Swap Pledge**

The head of the Soviet state bank said Sunday that major Western nations pledged readiness to give financial help through gold swaps if Moscow faced a liquidity crisis, Reuters reported from Basel.

Viktor Geraschenko, chairman of Gosbank, said he secured an understanding from several Western central banks that in an emergency, the Soviet state bank could raise cash by pledging gold to be repurchased at a later date.

In addition to the new forecast for real growth of the gross national product, the total of the country's output of goods and services, Mr. Boskin said the administration would project long-term interest rates this year to average around 8.5 percent and short-term rates about 7.7 percent.

Previously the White House estimated short-term rates would fall to an average of 6.7 percent in 1990.

Mr. Boskin said the administration expects the unemployment rate to remain at its current level of 5.3 percent.

"We believe that the rebound in the economy from its current sluggish pace will occur a little more gradually," he said.

The Council of Economic Advisors, of which Mr. Boskin is chairman, forecast 2.6 percent growth for 1990 in February.

Mr. Boskin said no one anticipated the political changes in Eastern Europe, which were followed by expectations of significantly higher investment in that region, leading to a rise in interest rates worldwide.

■ **Fed Member Urges Easing**

Martha Seger, a U.S. Federal Reserve Board member, said Sunday that there were signs of dangerous weakness in the U.S. economy, and she urged a relaxation of the Fed's monetary policy by year's end, Reuters reported from Basel, Switzerland.

■ **U.S. Study Sees Japan Taking Lead in Electronics**

By Clyde H. Farnsworth
New York Times Service

WASHINGTON — In a study that could cause the White House some discomfort, the Commerce Department has warned that the \$200 billion-a-year American electronics industry, long considered a bellwether of the country's competitiveness, is losing its edge and may be eclipsed in this decade by Japan and newly emerging producers like South Korea.

Neither the conclusion nor the recommendations for future action are startling. But the report, released Friday, is the most comprehensive yet by any government agency of what had generally been expected to become the country's flagship industry and biggest employer by the turn of the century.

The analysis, ordered by Congress two years ago, is bound to set off more heated debate about the government's role in promoting industrial welfare.

So controversial has this issue become that in the foreword there is a disclaimer that the report represents only the views of the Commerce Department and "not necessarily" those of the Bush administration.

"If the Commerce Department does not speak for the Administration, then who does?" asked Representative Mel Levine, a California Democrat who is co-chairman of the House Export Task Force.

"The climate is so threatening that nobody wants to face the truthful assessment of this report."

The report found that although the United States remains the overall electronics leader, American suppliers of a broad range of products — from silicon wafers and memory chips to computer displays and telecommunications network switches — have rapidly lost their shares of the world market in the last several years.

"If the current relative growth rates continue, the Japanese will be the world's No. 1 electronics producer and trader by the early 1990s," said the report, which was prepared by electronics sector specialists of the International Trade Administration of the Commerce Department.

The report also drew on the overseas resources of the U.S. and Foreign Commercial Service, which monitors competitive conditions in foreign countries.

The report recommends familiar Bush administration policy proposals: tax credits for research and development, antitrust exemptions for joint manufacturing consortiums, relaxed export-control regulations and cuts in the capital-gains tax to reduce the cost of raising capital.

A spokeswoman for the Commerce Department said the department decided to publish the report now rather than wait for the formal interagency clearance that would have made the report an administration document.

In response to the report, a representative of the electronics industry and some members of Congress said the government should be doing more to promote the industry.

"The government has to be far more creative," said Representative Doug Walgren, a Pennsylvania Democrat who is chairman of the House Energy and Commerce Committee's subcommittee on commerce, consumer protection and competitiveness.

Three Japanese companies — Canon Inc., Hitachi Ltd. and Toshiba Corp. — topped the list of companies receiving American electronics patents in 1987.

The study found some shortcomings in the industry itself, citing its focus on "short-term tactical" considerations, in contrast to the longer-term strategic perspective taken by Japanese companies.

It reported on a survey on the corporate objectives of Japanese and American executives and noted that Japanese executives placed market share and return on investment as their first and second objectives, whereas American executives were primarily concerned with return on investment and raising the price of shares, with market share in third place.

"This downward trend in the U.S. share of patents is reflected in the declining capabilities of U.S. firms relative to the Japanese in the research and development phases of bringing key electronics technologies to market," the report said.

■ **Boeing Order Set**

Boeing Co. will hold a news conference Monday in Washington to announce an airplane order from Korean Airlines that could be worth \$3 billion, United Press International reported from Seattle.

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General Dynamics last month agreed to cooperate with British Aerospace PLC in international defense projects, a move analysts attributed to shrinking defense budgets and the increased cost of research and development.

General Dynamics also said that its earnings may be hit by the delay, which it said would permit completion of the technical basis of the program before finishing the final tooling and production of the development test aircraft.

It said it was confident that the basic operational requirements of the A-12 will be met.

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McDonnell's combat aircraft operation, based in St. Louis, is the largest part

OTC Consolidated trading for week ended Friday, June 2.

(Continued on next left-hand page)

LAND: After 11

New International Bond Issues

Compiled by G. Jennifer Shapiro

Issuer	Amount (millions)	Mat.	Coups %	Price	Price and week	Terms
Floating Rate Notes						
Postbank	\$50	2000	1/4	100	—	Over 6-month Libor until 1995 and 0.45% over from years to 10. Noncallable. Fees 0.35% (Goldman Sachs Int'l)
Skandinaviska Enskilda Banken	\$200	2000	1/4	100	—	Over 6-month Libor until 1995 and 0.45% over thereafter. Noncallable. Fees 0.26% (Goldman Sachs Int'l)
Länderskreddittank Baden-Wuerttemberg	DM 200	2000	17	100	—	Under 6-month Libor. Noncallable. Fees 0.30% (Tinkens und Berhardt)
Collateralised Mortgage Securities No. 4	\$200	2030	1/4	100	—	Over 6-month Libor until 2000 and 0.50% over thereafter. Callable at par in 1995. Fees 0.31% (Goldman Sachs Int'l)
Fixed-Coupons						
Mitsubishi Estate	\$200	1997	9%	101.32	—	Noncallable. Fees 1.8% (Nikko Securities Europe)
Nordic Investment Bank	\$200	1993	9	99.99	—	Noncallable. Fees 0.20% (Morgan Stanley Int'l)
Oesterreichische Kontrollbank	\$200	2000	9%	99.40	—	Noncallable. Fees 0.32% (Morgan Stanley Int'l)
Ford Credit Funding	\$100	1993	13%	101.27	—	Noncallable. Fees 1.95% (Samuel Montagu & Co.)
Eclitich de France	fr. 150,000	1995	12%	101.20	—	Noncallable. Fees 1.6% (Banca Commerciale Italiana)
Swedish Export Credit Corp.	SEK 50	1991	11	101%	—	Noncallable. Fees 1% (Svenska Int'l)
Banco Overseas	CS 50	1993	12%	101.80	—	Noncallable. Fees 1.95% (Scottish Mutual)
Lavoro Bank Overseas	Y 10,000	1995	6%	101%	—	Noncallable. Fees 1.95% (Devoe Europe)

Dollar Dims for Japan's Insurers

TOKYO — Japanese life insurers, usually among the most dollar-hungry groups in the currency market, may be said.

Currency dealers here said higher interest rates worldwide have dimmed the dollar's luster and the insurers' eyes are now turning to investment in European assets.

Many insurers also do not have as much money to invest as they once did. "They may be facing difficulty collecting big money for investment," said Kiyoshi Wakabayashi, deputy manager at Yamaichi Securities Co.

With prices of local stocks often falling, Japanese firms have recently stopped raising money through equity bond issues.

"New and tighter Japanese restrictions on financing real estate investment have also helped reduce their gains."

"The amount of funds that life insurers will receive this year may be reduced by 20 percent from a year earlier," said Kazuo Takayama, chief dealer at Barclays Bank. "This may eventually lead to a cut in their overseas portfolio purchases."

"Outstanding overseas assets held by Japan's life insurance companies totaled 18 trillion yen (\$118 billion) out of total assets of 114 trillion yen at end-February 1990, according to a report by the Life

Insurance Association of Japan. Life insurers are expected to add an estimated \$15 billion to overseas investments this year through bond, stock and real estate purchases, industry sources said.

The insurers' healthy appetite for U.S. assets helped boost the dollar in 1989, when it rose nearly 20 yen to 143 yen from the beginning of the year, dealers said.

Bank of Japan Sees Economy Staying Strong

TOKYO — Japan's economy is likely to remain strong, but continued vigilance is required to ensure stable prices, the Bank of Japan said in a report issued Sunday.

"The present expansionary trend of the Japanese economy is unlikely to be seriously undermined for the time being," the report said.

Japan's current account surplus will continue to shrink, but at a slower pace, the central bank said, adding that it should try to secure price stability and sustain growth led by domestic demand.

But they are no longer racing blindly into dollar assets, dealers said.

"Some investors may put nearly 60 to 70 percent of new overseas investment funds in Europe," said Mr. Takayama. He said life insurers may reduce dollar assets in their total overseas holdings to 50-60 percent from 70 percent.

Higher yields in Europe and the potential rise in business opportunities there in the run-up to integration of European Community markets in 1992 are the most commonly cited reasons, dealers here said.

In late May, when the dollar fell through the key 150-yen level from a high of 160.35 in April, traders were nervous about whether life insurers would start selling it to adjust hedge positions.

Changes in insurers' hedge positions are a major market mover. Some dealers said that if life insurers raise their ratios by even 5 percent on a lower dollar, it could knock the dollar down sharply to below 148.50 yen.

"We don't want to trigger any big dollar fluctuations," said Kiyomori Kato, foreign exchange manager at Dai-ichi Mutual Life Insurance Co. "I hope the dollar stabilizes. That's the best thing for us life insurers."

Japan's current account surplus will continue to shrink, but at a slower pace, the central bank said, adding that it should try to secure price stability and sustain growth led by domestic demand.

Inter-Pacific Of Malaysia Announces Revamping

Reuters

KUALA LUMPUR — Malaysia's diversified Inter-Pacific Industrial Group Bhd. announced a major restructuring, including a rights and bonus issue on one of its units, to streamline its activities.

"The restructuring will help us solve our gearing problems and bring in some capital for expansion," said the company's executive director, Yong Teck Ming.

Mr. Yong said the restructuring was aimed at regrouping Inter-Pacific's gaming, tourism and property interests. Under it, Inter-Pacific would sell real estate projects to a gaming firm for 407.06 million ringgit (\$150.4 million).

But analysts said the move was a prelude to a takeover bid for Magnum Corp., a gaming and real estate concern that is an affiliate of Multi-Purpose Holdings Bhd, which Inter-Pacific wants as part of its thriving gaming empire.

Mr. Yong denied market speculation that Inter-Pacific, led by Malaysia's influential businessman Vincent Tan Chee Yoon, would launch a takeover bid for Magnum. "The subject has never been discussed," Mr. Yong said.

Inter-Pacific units own 23.52 percent of Magnum, while Multi-Purpose holds 39.78 percent.

Talk of a takeover bid surfaced last week when the chief executive of Magnum and Multi-Purpose, Lim Thian Kiat, announced plans to sell property worth 285 million ringgit.

Analysts said Mr. Lim wants to use both property sales to raise cash to pay for his 592 million ringgit takeover of Multi-Purpose last year.

Mr. Lim and Mr. Tan have waged a four-month battle for control of Magnum, and analysts said Mr. Tan would have to launch a tender bid for Magnum to protect his investment in the company.

The Job of 'Resolving' S&Ls

By Jerry Knight

Washington Post Service

WASHINGTON — Every Friday is the same at the Resolution Trust Corp., the year-old government agency in charge of cleaning up the wreckage of the savings and loan industry.

In the morning, if not the night before, teams of RTC accountants, examiners and lawyers board airplanes at Washington-area airports for cities where S&Ls are failing.

By the end of banking hours, they are waiting at the doors of thrifts that have been operating under government management and are doing their last day of business.

Then, as facsimile machines in Washington transmit the names of the moribund to the media, the RTC begins a ritual that has been repeated 148 times since the agency was created in August. The RTC chairman, L. William Seidman, calls it Operation Clean Sweep.

"The Board of Directors of the Resolution Trust Corporation," said one of Friday's thrift obituaries, "has approved the sale of Gibraltar Savings and Loan Association F.A., Annapolis, Md., to Annapolis National Bank, Annapolis, Md."

"Gibraltar Savings' five former banking offices will reopen on Monday, June 11, 1990, and will operate according to Annapolis National's normal schedule."

Fifteen thrifts were "resolved" Friday, as the RTC puts it, at an estimated cost of \$1.3 billion, \$9.6 million of it for Gibraltar.

Gibraltar was one of six thrifts sold to other S&Ls or banks that paid the government for the right to take over a going business. Annapolis National paid \$2 million.

At six other thrifts, the depositors' accounts were transferred to neighboring institutions, which did not want the vaults or offices but were willing to pay for the deposits.

Three S&Ls were shut down and their depositors paid off as the government kept its promise to protect accounts of up to \$100,000. Almost everyone with more than \$100,000 had long since taken it out.

By Monday morning, the RTC will have alphabetized boxes of checks for depositors.

The RTC wrote checks at the other thrifts as well, totaling \$2.3 billion, to cover the accumulated losses that drove the associations into insolvency.

But that is not all Friday's 15 transactions will cost taxpayers. The thrifts had made hundreds of millions of dollars worth of bad loans and repossessed thousands of properties from borrowers who could not pay their debts.

The RTC estimated the ultimate cost of Friday's deals at \$1.2 billion after the government recovers what it can, but the final cost will not be known until all the real estate is sold and the bad debts settled.

That task will take so long, Mr. Seidman says, that when he retires after this year the job should be given to "someone just graduating from business school."

And it will have cost at least \$132

billion, by the Bush administration's latest estimate, and perhaps as much as \$500 billion if costs continue to grow and interest on the debt is included.

In addition to the 148 thrifts resolved so far, 285 others, with assets of \$165 billion, are being run by RTC-appointed receivers and conservators, waiting to be disposed of. About 400 more thrifts are in precarious condition.

The RTC is finding the cleanup to be more costly than expected, Mr. Seidman said, because the S&Ls are turning out to be worth less than the RTC hoped.

Once the government seizes an association, he said, its value begins to deteriorate rapidly. The solution, according to Mr. Seidman, may be to start finding buyers for failed thrifts before they are seized.

A Convict's S&L Scheme Leads to Fraud Verdict

New York Times Service

LOS ANGELES — A man who organized a \$144 million savings and loan fraud from a prison cell in the Mojave Desert has been convicted in federal district court here.

David A. Feldman, 49, was found guilty Friday of three counts of mail fraud in a scheme that offered small saving institutions in the East and Midwest a chance to profit from California's booming real estate market in the early 1980s. The jury acquitted him of two other mail fraud charges.

BankAmerica Corp., which acted as trustee on many of the investments, was required to absorb up to \$133 million of the \$144 million in losses to investors. The San Francisco company is suing Mr. Feldman and several other defendants in an effort to recover up to \$95 million.

Mr. Feldman helped organize the scheme while serving about a year at Boron Federal Prison Camp in California on a 1982 federal conviction arising from his days as a stockbroker for Merrill Lynch in Chicago. In the latest scheme, he offered investors a chance to participate in "pools" of residential mortgages, yielding up to 18 percent. He offered protection from loss, based on bonds that were to serve as insurance, said Leslie Swain, a prosecutor.

The prosecutor said, however, that the bond company, the Glacier Assurance Co., which is now in receivership, and the principal borrower, a California developer, was in bad financial condition. Mr. Feldman allowed the bond company and the principal borrower to take money from the investment pool to support failing real estate transactions, including condominium conversion projects in Texas and Southern California, the prosecutor said.

DIVIDEND INCREASED

Record Earnings at Degussa

Fiscal 1988/89 was a very successful year for the Degussa Group. Earnings — especially at the Group level — showed a substantial increase over the already strong results of the year-earlier period. Net income for the Group surged 20% and for the parent company 9%. These results stemmed from another excellent performance by the Chemicals Sector, from a sharp increase in profitability by the Pharmaceuticals Sector, and from an overall improvement in earnings from the Metals Sector.

The year's performance enables us to increase the dividend from DM 10.50 to DM 11 per nominal DM 50 share. DM 30 million were allocated to the reserves (DM 25 million the previous year).

Group Sales Advance

Consolidated sales rose 6% to DM 14.4 billion. Excluding trading in precious metals, worldwide sales were up 11%. Foreign sales accounted for 74% of the total, a slightly higher proportion than the year earlier. In both the Chemicals and Pharmaceuticals Sectors, sales increased 12.1%. The Metals Sector lifted sales by 1.5%.

Sales in West Germany grew 2% to nearly DM 3.7 billion, with improved earnings almost across the board. Once again we reinforced our strong position in other Western European markets by reaching over DM 3.9 billion in sales. In North America, we boosted sales 10% to more than DM 4.1 billion, of which precious metals trading accounted for some DM 1.6 billion.

Investments and Financing

At DM 531 million, capital investments for the Group were up 18% and for the parent company

Consolidated Balance Sheet as of September 30, 1989

ASSETS	DM million	LIABILITIES AND SHAREHOLDERS' EQUITY	DM million
Property, plant and equipment, and intangibles	2,009	Issued capital stock	365
Investments	486	Reserves	958
Total non-current assets	2,495	Profit available for dividend	80
Inventories	1,672	Shareholders' equity	1,403
Cash and receivables	2,464	Accrued liabilities	1,897
Total current assets	4,085	Long-term liabilities	483
Total	6,631	Short-term liabilities	2,848
		Total	6,631

nearly 22% at DM 229 million. As in previous years, the major part was invested in domestic production facilities, although the foreign proportion has been steadily rising. Financial investments in the Group amounted to DM 108 million (DM 85 million during the year-earlier period), primarily for capital increases in associated companies.

Research

Group outlays for R&D, including new research facilities, rose by 13% to DM 422 million. In the Metals Sector, efforts were concentrated on precious metal refining, precious metal preparations, materials for electronics, sensors, metallurgical and metallographic process engineering, and special plant and equipment for new technologies. In chemicals, the emphasis was again on catalysis and biotechnology.

In pharmaceuticals, our focus was on research in the areas of cancer, respiratory disorders, pain, and infections. Degussa has 2,900 people working in R&D.

Staff

Degussa's staff was increased by 1,279 to 33,698. This rise includes 232 employees of Degussa Carbon Black in the U.S.

Excerpts from the Consolidated Statements of Income

	DM million
Sales	14,357
Cost of materials	9,818
Payroll costs	2,486
Depreciation	441
Income from investments	58
Taxes on income	163
Net income	175

Outlook

At the start of a new decade, we at Degussa have many reasons to be optimistic about our future development and performance. Our activities in metals, chemicals, and pharmaceuticals have been going from strength to strength, and our solid gains in sales and results point to a successful course of business in the years to come.

For a copy of our 1988/89 Annual Report in English, please write to:

Degussa AG
Öffentlichkeitsarbeit
P.O. Box II 05 33
D-6000 Frankfurt 11
Federal Republic of Germany

U.S. Praises Reforms by Argentina

BUENOS AIRES — U.S. Trade Representative Carla Hills praised the Argentine government's open-market reform policies but said foreign investors needed to be assured that the new business climate will be permanent.

Mrs. Hills' statement came after Argentina resumed interest payments on its debt after a 26-month halt and amid disappointment by Argentine officials that inflation in May reached 13.6 percent, nearly double the government's forecast.

Speaking on Friday of the policies of President Carlos Saul Menem, Mrs. Hills said, "In Argentina, Menem's administration is trying to achieve economic reform by getting the government out of the way of the entrepreneurs and permitting markets to open."

"Argentina can make permanent economic policies so strong they can serve as a magnet to attract investors from around the world, including from the United States."

The trade representative noted on her 24-hour visit the need to adopt legislation that would protect intellectual property rights so as to convince foreign investors that their products' patents will be

respected. "Intellectual property is a very strong magnet to both high technology and to investment," she said.

In a visit to the United States last September, Mr. Menem pledged to reform Law 111, which protects Argentine companies that copy foreign products and does not force them to pay patent rights.

Argentina is trying to reform an economy that has staggered under high inflation and a huge foreign debt.

The administration has been fighting five-digit inflation with free-market policies, which have slowed the rise in prices during the past two months but have also led to a steep recession.

In April, monthly inflation fell to 11.4 percent after a rise in March of 95.5 percent, leading government officials, including Mr. Menem, to predict a May increase of 7 or 8 percent.

"The inflation rate was dismaying, because with all the monetary restrictions we are applying we thought it should have been a one-digit increase," said Carlos Carballo, undersecretary of the economy, of the Ministry of Economy.

Planning Secretary Moises Ikonoff said inflation in May had exceeded the government's estimates due to a sharp rise in housing costs and vegetable prices. Housing rental costs rose 48.4 percent, while vegetable prices increased 29 percent as bad weather affected the market prices for crops.

Argentina last week resumed servicing its \$40 billion commercial debt after a 26-month hold-out. On Friday the country acknowledged that its \$40 million-per-month repayment plan was modest.

"We paid \$40 million on Thursday," Mr. Carballo said. "On a debt accruing \$300 million a month, it is a modest sum."

Argentina had stopped paying interest to foreign banks in April 1988, running up \$6 billion in arrears. Its whole foreign debt stands at \$66 billion.

Local representatives of creditor banks said they had hoped the government would make monthly payments of at least \$100 million while the debt negotiations continued, presumably until year's end.

Economy Minister Antonio Erman Gonzalez, however, said last week that the government will pay back its debts according to the economy's growth and the country's ability to make payments.

The government has already begun small-scale privatizations by selling or leasing office and manufacturing facilities to businessmen. But its major privatization legislation remains bogged down in the Sejm, or parliament.

Privatization is a must, and nobody opposes that," said Mr. Wroblewski, the Gazeta Bankowa editor.

"But because of fears of workers of how they will fare under foreign ownership, nationalist feelings about foreign — especially German — capital, and concerns about social justice, it must be carried out slowly," he said.

"Meanwhile," he added, "the government is running out of time, because the faster it can privatize, the faster production can come back."

While the austerity program is increasingly embattled at home, it has drawn support from the International Monetary Fund and the World Bank in the form of standby credits and adjustment loans.

Financial markets — or more accurately in Poland's case, the black market — have also reacted favorably. After 21 devaluations last year to reflect the eroding black market value of the zloty, the new official rate of 9,500 zlotys has held steady since the economic program took effect in January.

"The stabilization of the exchange rate is a very positive sign," said Marian Kamion, president of Bank Polska Kasa Opieki, Poland's second-largest bank. "It is having an important influence on company decisions regarding foreign trade."

POLAND: After a 5-Month Crunch, Time to Rebuild

(Continued from page 1)

with its own situation a decade ago. "It was a case of déjà vu," Andrzej Wroblewski, editor of Gazeta Bankowa, a leading economic newspaper, said of the recent labor troubles.

"In 1980, when there were strikes by Solidarity in Gdansk and Szczecin, the then-Communist television showed images of idle ports and told us that Poland was losing millions because of anarchists," Mr. Wroblewski said. "In 1990, it was the same images and almost the same commentary."

Mr. Walesa said the strike was a "strong signal" of worker unhappiness with the government. Political analysts said the fact that only 43 percent of eligible voters turned out for recent municipal elections underscored that unhappiness.

Mr. Balcerowicz, regarded by some as the third most powerful figure in Poland, after Prime Minister Tadeusz Mazowiecki and Mr. Walesa, argued that with the economy verging on collapse last year, the government had no choice but to impose drastic measures.

"We inherited a very high inflation rate and there was no other way to stop it than through a crash program," Mr. Balcerowicz said.

"We are not only stabilizing the economy," he added, "but instituting radical structural reforms."

Mr. Balcerowicz's program has included the freezing of most prices, the freezing of wages through punitive tax rules, the scrapping of most state subsidies, the establishment of a single exchange rate for the Polish zloty, and an end to central-bank financing of government defi-

cits. Mr. Balcerowicz has also ended most government monopolies and reoriented Poland's foreign trade from the East to the West.

In monetarist terms, the program has taken an economy where a flood of nearly worthless zlotys was chasing a limited supply of goods, and turned it on its head.

Today, it is money that is in short supply. As a result, demand has been choked, inflation has fallen sharply and goods have returned to the shops.

"They have employed a textbook monetarist program and obtained textbook results," said a Western diplomat here. "The drop in living standards shouldn't really have come as a surprise."

But there are signs that the government has been surprised by the depth of the discontent. It has also been stung by increasingly harsh criticism from Mr. Walesa.

Mr. Balcerowicz said that the government was now prepared to propose a set of measures which will focus on the supply side and, we hope, reactivate the economy in a noninflationary way."

He said the measures would include budgetary adjustments to boost state spending in certain areas, such as housing, the establishment of a system to support the creation of businesses, and further measures to liberalize trade. Most important, he said, would be the start of a government program to sell off state-owned industries.

"The single most important change will be privatization," he said. "It is basic to changing the structure and behavior of the economy."

Degussa

Metals. Chemicals. Pharmaceuticals.

WORLD STOCKS IN REVIEW

Via Agence France-Press

Amsterdam

The market showed a slight loss on the week in flat trading, dealers said, though Nedlloyd, Pakhoed and VOC gained on rumors of takeovers.

The CBS all-share index fell to 198.60 from 200.30 the previous Friday. Volume rose slightly, to 5.5 billion guilders for the week, of which 2.6 billion was equities. A week earlier, volume was 5.3 billion guilders, with 3.2 billion in equities.

Some foreign investors returned to the Amsterdam market. Brokers Kempen & Co. said that it expected foreign interest to continue and to keep share prices at least at current levels in the coming week.

Frankfurt

The market posted a moderate loss on lack of enthusiasm during a four-day trading week.

The DAX spot-trend indicator ended Friday at 1,822.23, off 34.72 points, while the Commerzbank indicator fell 26.1 points, to end at 2,238.9. Volume on the eight West German stock exchanges totaled 28.42 billion Deutsche marks, up from 27.66 billion the previous week.

Political uncertainty in the Soviet Union helped keep the market weak, despite temporary firmness on the bond market and the announcement Wednesday that real GNP was up 2.5 percent in the first quarter over the previous one.

Investors, particularly foreign ones, were cautious amid continuing skepticism about the costs of German reunification. The few American investors active at the end of the week put downward pressure on prices by taking profits.

Department stores were hit hard, with Karstadt dropping 32 DM on the week, to 640 DM. Energy stocks also fell, with RWE falling 16.80 DM, to 466.20 DM, and Veba declining 19.50 DM, to 413.50 DM. Among banks, Com-

merzbank fell 7.20 DM, Dresdner 9.20 DM and Deutsche Bank 22 DM.

Hong Kong

The bourse held up well, despite concern over huge demonstrations marking the first anniversary of the June 4 repression in Beijing.

The Hang Seng Index rose 0.48 percent on the week to close at 3,174.33, its highest level since May 19, 1989, when pro-democracy protests in China were intensifying.

Average daily turnover rose to 2.07 billion Hong Kong dollars from 1.78 billion dollars the week before.

The market lost 6 points Monday, the day after 100,000 people rallied to mark the Beijing anniversary, prompting concern that such demonstrations might anger China.

Dealers said investors appeared cautiously optimistic for the short term. They said the Hang Seng might test the 3,200 barrier in the new trading week.

London

After a strong climb in late May, the market slowed sharply in the past week, settling into a lackluster pattern. Profit-taking on Wall Street and bad results for several companies took a toll.

The 100-share Financial Times Stock Exchange index, which rose more than 100 points the previous week, fell 4.8 points, to finish at 2,366.6.

Index futures traded at a strong premium to the cash market, reflecting a conviction that the British market is undervalued compared with other world markets.

But the cash market, preoccupied by a series of bad company results, failed to respond.

The news Thursday that two companies, Coloroll Group and A. Goldberg, had gone into receiver-

ship was seen as a further warning of British corporate weakness.

Oil stocks were hurt by weak crude prices, and the retail sector was hit by news that a West German retailer had asked the British Office of Fair Trading to investigate the industry. Bass ended its recent run after some analysts re-evaluated negatively its presentation on its Holiday Inn acquisition in the United States.

Milan

Though attention was diverted by the start of soccer's World Cup, the market managed a small rise.

The MIB index rose 0.37 percent to close at 1,098 points. A daily average of 95 million shares changed hands. (Figures for the previous week were unavailable.)

Several leading issues dropped: Fiat fell 1.38 percent; Olivetti, 1.72 percent; Mediobanca, 1.17; Enimont, 1.73; Finelli SpA, 0.98; and Ferfin, 0.94 percent. CIR, however, rose 1.40 percent; Comit, 2.57; and Montedison, 0.24.

Analysts said they expected good business and stable market prices in the short term.

Paris

The Bourse took a beating, as investors worried about President François Mitterrand's campaign against speculation and "easy profits," and the possibility of higher taxes on capital gains.

The CAC-40 index fell 3.2 percent on the week to 2,021.41 points. Except for a slight rise Thursday, the Bourse has declined since May 30, losing a total of almost 5 percent.

Foreign investors have been more attracted by Wall Street's good performance than by the limping Bourse, operators said.

Many analysts said the Bourse was disenchanted with the Socialist government's policy, which they called particularly unwelcome just weeks before the achievement of free capital movements within the European Community.

The continuing good performance of the French economy has been unable to reverse the market's downward trend, they noted.

Singapore

After a second week of consolidation, signs of lethargy were beginning to appear, operators said.

The Straits Times industrial index rose 12.26 points, to 1,568.07. The Stock Exchange of Singapore all-share index ended 3.77 points higher, at 438.46.

Turnover for the week fell 6.8 percent, to 280.12 million shares.

Trading was dominated by retail investors. Share prices moved within a narrow range as institutional investors stayed on the sidelines.

Dealers said there was selective buying in certain sectors, especially in banking.

Tokyo

Trading on the Tokyo Stock Exchange was mixed and directionless, with the Nikkei average gaining 0.5 percent, or 102.17 points, to 32,993.29.

It was the sixth consecutive weekly gain. The Nikkei had gained 97.24 points the previous week.

Buying was slow due to investor nervousness; the final day of trading for June futures contracts was Thursday.

The broader Tokyo Stock Price Index of all issues in the first section ended 14.77 points lower, at 2,411.78, after gaining 6.61 points the previous week. Average daily volume in the first section fell to 615.5 million shares, from 781.1 million the week before.

Analysts said that market participants apparently wanted to buy but were going for a focus. They said investors were reluctant to buy before Thursday, when investors were expected to sell spots against the June contracts.

One analyst said the market would probably remain bearish until short-term interest rates

dropped. Others said the market was moving away from large-capital stocks.

Zurich

The market lost some ground due to renewed tension on interest rates and concern about the performance of Tokyo and Wall Street, operators said.

The Swiss Performance Index finished at 1,181.3 points, down from 1,186.9 the previous week. The Swiss Bank Corp. indicator ended at 674.1, against 678.1, while the Credit Suisse indicator fell to 653.1 from 659.

In the banking sector, Union Bank of Switzerland finished at 3,570, down from 3,620 a week earlier. Swiss Bank Corp. at 322, from 327; and Credit Suisse at 2,430, after 2,480.

Operators said that investors were concentrating on secondary issues amid an uncertain outlook.

Japan Ties Insurance

United Press International

TOKYO — The Ministry of International Trade and Industry decided not to provide new insurance for exports to the Soviet Union without letters of credit issued by the Soviet government bank, news reports said Sunday.

The major economic daily Nihon Keizai Shimbun and Kyodo News Service said the decision, conveyed to Japanese traders, is aimed at easing commercial risk amid reports that Moscow has delayed payments for imports from Japan.

—AP Wire Service

WALL STREET REVIEW

Figures as of close of trading Friday, June 8.

NYSE Most Active

Vol.	High	Low	Last	Chg.
Pharm	119.84	119.84	119.84	+1.00
LA Gr	78.45	78.45	78.45	+0.10
AT&T	67.11	67.11	67.11	+0.10
Exxon	42.75	42.75	42.75	+0.10
IBM	161.25	161.25	161.25	+0.10
Merck	45.25	45.25	45.25	+0.10
Johnson	25.25	25.25	25.25	+0.10
Amgen	25.25	25.25	25.25	+0.10
Boehr	25.25	25.25	25.25	+0.10
Novartis	25.25	25.25	25.25	+0.10
Roche	25.25	25.25	25.25	+0.10
Schering	25.25	25.25	25.25	+0.10
Glaxo	25.25	25.25	25.25	+0.10
Wellcome	25.25	25.25	25.25	+0.10
SmithKline	25.25	25.25	25.25	+0.10
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Wellcome	25.25	25.25	25.25	+0.10
SmithKline	25.25	25.25	25.25	+0.10
Beecham	25.25	25.25	25.25	+0.10
Glaxo	25.25	25.25	25.25	+0.10
Wellcome	25.25	25.25	25.25	+0.10

Personal Investing

A New Breed of Currency Fund Causes a Stir

Gaia's portfolios sweep to the top of the rankings with an aggressive strategy. But doubters ponder their staying power.

By David C. Lanchner

USUALLY, when a new type of fund is successful, others are quick to copy it. But this has not been the case with the Gaia-corp group's innovative currency funds.

Gaia has managed to boost returns by borrowing techniques from the futures industry and by investing in an unprecedented range of 22 currencies, covering everything from Saudi Arabian riyals to U.S. dollars. The firm's two funds, Gaia Hedge I and Gaia Hedge II, have turned in some stellar returns since their launch in May 1988, drawing a lot of attention from investors and shaking up the fund industry.

The firm maintains that the basic model for their funds is both more profitable and safer than the traditional currency portfolio, and that it will only be a matter of time before other public fund companies copy them. While some financial advisers and rival mutual fund companies agree that Gaia's approach will be copied, others are more skeptical. The doubters note the funds have experienced some breathtakingly sharp ups and downs in their relatively brief lifetimes.

Yet it is widely acknowledged that Gaia's approach is a sharp departure from the conventional practices of currency funds designed for individuals. These funds have been viewed primarily as defensive investments that could hold their value when stocks and bonds did poorly.

"It is a means of diversifying, but not a terribly satisfactory one," says Mark Searle, a unit trust adviser at Gerard, Vivian and Gray in London, of currency funds. Such funds look attractive when an investor's home currency is on the decline. These funds come in two structures. The first is a simple deposit fund — much like a money market fund — in which the funds shares are denominated in the same currency as its underlying assets. Gaia belongs to the second category, the managed fund, where advisers actively switch among different currencies and instruments in an effort to maximize the value of the portfolio.

But, investment professionals say that most managed currency funds have had a hard time maintaining their allure, especially when there are few strong trends in the foreign-exchange markets.

"Mostly, it is an alternative when you want to park

cash until something more attractive comes along," says Brian Tora, a unit trust adviser at James Capel in London. In addition to being hard to predict, Mr. Tora says that the "returns from currency deposits are simply not as appealing as those available in international stock and bond markets."

Gaia's approach, though, has managed to produce the kind of returns that might lure away investors from stock and bond funds.

"GaiaCorp has radically changed the entire concept of a currency fund," maintains Jill Teager, an executive at Bermuda-based Scimitar Investment Management, a fund management company. Scimitar, which exclusively managed its own group of currency funds until February, was sufficiently impressed to hire Gaia to run a new currency portfolio.

"They have turned currency funds into aggressive and well diversified investments that produce returns comparable to high-performing stock and bond portfolios," she says.

In two years, Gaia Hedge II has produced the highest return among offshore currency funds, appreciating 110 percent in dollar terms and outdistancing by fivefold the return of the next best fund. Gaia Hedge I, which had below average performance in its first year, has seen its returns improve sufficiently to make it the 10th best-performing currency fund for the past year and the No. 2 performer for the past six months. It has chalked up an impressive 31 percent return since November, according to Micropal statistics, which tracks 85 currency funds.

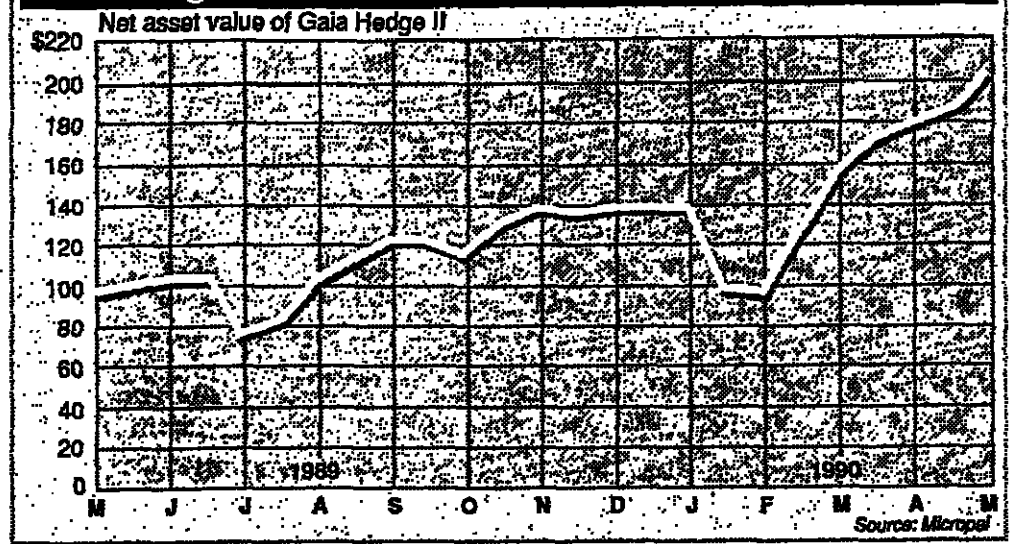
To create these funds and a third portfolio that is about to be launched, GaiaCorp instituted a novel portfolio philosophy. First of all, Gaia managers are far more willing than other managers to "sell short" — betting against currencies as well as on them. This can allow investors to profit when foreign currencies lose value, as well as when they gain value against an investor's home currency.

Secondly, the fund attempts to get extra mileage out of movements between major currencies by investing in related but less heavily traded currencies that can be expected to move even more. Because of this, the firm tracks and invests in 22 currencies.

Finally, in an effort to get the biggest bang for the buck, the Gaia funds buy so-called leveraged options and forward contracts. For a small amount of money,

Continued On Page 14

The Surge in Gaia's Fortunes



Source: Micropal



Nigel Tiersley, head of Gaia in London.

The Associated Press

FUNDS

Using Warrants As a Sweetener

Racy bets on London funds find a following.

By Judith Rebek

LONDON FUND MANAGERS are always looking for ways to make their offerings more palatable to investors. In recent years, many managers have opted to spice up their London-listed closed-end funds with a dash of warrants.

These racy instruments, issued along with the fund's initial offering, give the holder the right to purchase shares in the fund at a fixed price on a specific date or period over their lifetime, typically at least five years. After the initial offering of the fund, the warrants may be traded separately.

In the early 1980s, there were only about a half-dozen warrants on London's closed-end funds, a category that includes both U.K. investment trusts

and some exchange-listed offshore funds. Now, there are more than 90 issues, a sign of their popularity with fund sponsors and investors.

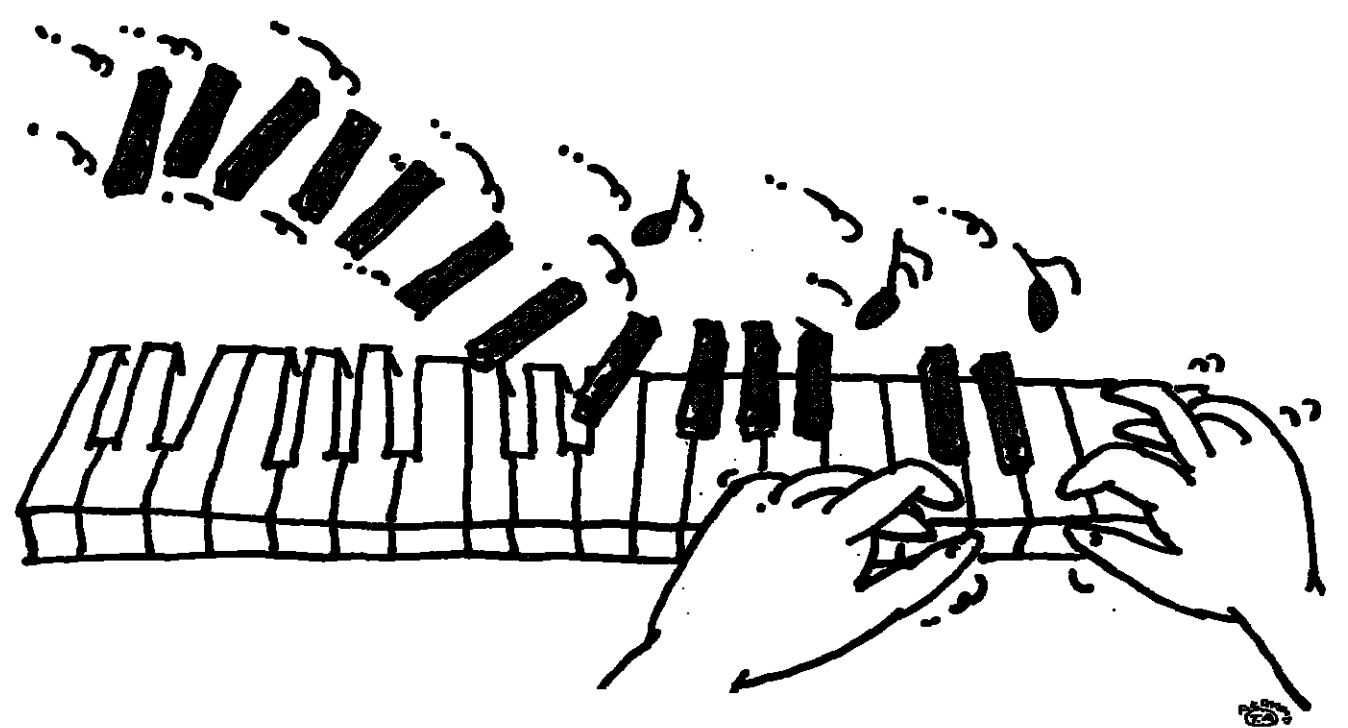
Closely related to the option family, warrants give purchasers of a fund a chance to get some extra performance. A new fund is typically sold in units of ordinary shares with a warrant. The warrant may allow the purchaser of the fund an opportunity to buy another share, perhaps at the original offering price, at regular intervals over the fund's life. If the fund's shares perform well, that could spell a nice profit.

Some initial buyers of closed-end funds see the warrants as making up for the cost of the underwriting. When a fund is launched, a percentage of the assets go to the underwriters, so less

Continued On Page 14

Warrant Sampler				
Company	Terms (Prices in pence)	Warrant Price (pence)	Ordinary Share Price (pence)	Specialty
Abtrust New European	1 ordinary share at 100 May 31, 1993-2000	38	93	Europe
Baillie Gifford Shin Nippon	1 ordinary share at 50 April 30, 1991-1996	76	109	Japanese Small Cos.
Continental Assets	1 ordinary share at 100 April 30, 1991-1996	106	173	Continental European Smaller Companies
F&C Enterprise	1 ordinary share at 20 April 30, 1991	18	27	Emerging Cos.
German Smaller Cos.	1 ordinary share at 100 August 31, 1990-1995	143	208	German Smaller Cos.

Source: S.G. Warburg.



We arrange only those mergers that we know will result in long-term business harmony.



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Think about it. Pierre and Marie Curie. Wilbur and Orville. Gilbert and Sullivan.

Irrefutable proof, one and all, that two heads are better than one — as long, of course, as they work with one another toward their common end.

At Nikko Securities, we believe that no two entities, business or otherwise, should come together without common principles and a common vision. Which is why all the M&A transactions we've arranged so far have been friendly in intent.

All provided mutual benefits in equal measure. And all, predictably, have led to accelerated growth and sustained business harmony.

Global connections, total services

Recently, Nikko put this policy into practice by strengthening our own ties with the Blackstone Group of New York who, like us, have no dealings with raiders. And no financial buccannery for clients.

Backed also by our 119 branches across Japan, M&A teams in almost every office in our 19-country network, and comprehensive financing services, Nikko is positioned now as never before to bring businesses together from around the world.

If you haven't yet hit the right chords in your search for new business partners, it's time we had a talk. It could be the prelude to a great joint performance.

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FOCUS

Cloudy Outlook For Platinum

PLATINUM enthusiasts have long been pinning their hopes on what has been called the "green factor." The argument goes that demand for the precious metal will grow over the years because of its use in catalytic converters, the pollution-control devices for automobiles.

That view received yet another endorsement in a report just out from Johnson Matthey, a leading platinum refining and marketing group. The report cites a record 1.45 million ounces of the precious metal used last year in catalytic converters, up 8 percent from 1988. Catalytic converter makers accounted for about 37 percent of the platinum market, says the report.

The strongest demand came from Western Europe, where the auto industry is gearing up for 1992, when tougher regulations on automobile emissions go into effect. Strengthening the trend into the 1990s is Eastern Europe's pent-up demand for both automobiles and environmental technology.

But the "green factor" is not the only influence on the platinum market these days. The Japanese predilection for platinum jewelry continued unabated last year. More than 27 million pieces of jewelry were sold in Japan, accounting for nearly 38 percent of total consumption.

One of the few bright spots in the investment market was in Europe, where, according to Johnson Matthey, individuals bought platinum coins, mostly in Austria, which has no value-added tax on coin sales to tourists.

Jacques Luben, executive director of the Platinum Guild International, an industry body, recommends one-ounce coins as a good starting point. "If you buy smaller, you're paying too much of a premium over the value of the metal to the manufacturer," he cautions. He suggests the Australian Koala and the Canadian Maple Leaf, advising Europeans to buy in Vienna, or for delivery in the United States, to avoid value-added taxes.

In the meantime, platinum prognosticators are making their calls for the next 12 months on the crucial supply-demand balance, which drives prices. And with more than 85 percent of the world's platinum coming from South Africa, political instability and possible unrest among black miners make estimating a tricky business. "It's a tough call," acknowledges Bernard Savako, senior metals analyst for Paine Webber.

"No one can be sure what will happen there if the situation starts to deteriorate," he says. Mr. Savako predicts a platinum price over the next 12 months ranging from \$450 to \$470 an ounce, with a top of \$560. But he adds that the market will have a tough time rising above the \$520 mark.

The Soviet Union, the world's second-largest producer of platinum, could also be a wild card. Pressed for hard currency, the Soviets sold 25 percent more platinum in world markets in 1989 than in 1988, apparently dipping into their reserves to do so. But it is anybody's guess as to what they will do next. Calling the Soviet marketing strategy a "conundrum," the Johnson Matthey report stated, "There have been few clues to the amount of platinum available for sale to the West this year."

Not all followers of the precious metals marketplace are counting on a diminished platinum supply in the 1990s, however. Some observers believe the market will be well supplied by new mines coming on stream in South Africa over the next five years. One point that has undercut the "green factor" is the increasing ability of the auto industry to recover platinum from scrapped autos. That source met 15 percent of industry's needs last year. Platinum analysts are also following closely the development by Ford Motor Co. of a catalytic converter that would not require the use of platinum.

Judith Rebek

COLLECTING

A Hot Market In Telecards

PLASTIC telephone cards, long relegated to the bottle-cap category of collectibles, have come into their own in Europe and Japan. The cards were originally conceived as no more than a practical way to make a phone call from a public pay phone, but they are now in high demand as collectibles. Designed to slide into a slot on public phones, the cards are an alternative to depositing money and can be used until a preprogrammed magnetic credit chip is exhausted.

There have been collectors for these cards since they were introduced in the mid '80s, but the market was pretty flat until about six months ago, says Tony Seiner, an executive with Stanley Gibbons, a postage stamp dealer based in Britain. Mr. Seiner and his colleagues have just finished producing the Stanley Gibbons Catalogue of Telephone Cards, the first book devoted to telephone-card collecting.

Members of a telephone card news service run by Stanley Gibbons have more than doubled since January, while prices for cards in markets around Europe and in Japan have more than tripled in the same period, according to Mr. Seiner.

Much of the rising interest in so-called Telecards stems from the increasing attention major stamp dealers such as Stanley Gibbons are devoting to the cards. A recent boost also came from publicity surrounding the first European Telephone Card Festival held in Paris last May 13 and 14.

At an auction there, a rare black card called "Message to Gerald Longuet," sold for \$2,321. Forty of the cards, originally worth roughly about \$10, were distributed in 1987 by the French engineering firm Schlumberger to commemorate a visit by Mr. Longuet, then France's postal minister.

Among those that have captured the interest of collectors lately are a card issued in early May by the French postal service with Vincent Van Gogh's "Self Portrait" reproduced on it, a German card advertising Kraft's Philadelphia Cream Cheese, and a rare entry from the United States, a telephone card issued in April and used by the inmates of Manning State Prison in South Carolina. Sold by the state prison authority for \$5, the card fetches \$16 in London or at the Carré Marigny, an outdoor telephone card market in Paris.

One note of caution, with many cards now selling for more than \$200, some vendors report the appearance of counterfeit cards. Also worth remembering: Unused cards are always more valuable than used ones.

David C. Lanchner

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BOURSES

Interest
In Italy
Grows

By David C. Lanchner

INVESTOR attitudes toward the Italian stock market have taken a marked turn for the better in recent weeks.

Chronic problems such as political instability, high inflation and rising interest rates are showing signs of abating. Major reform packages that analysts say should stir both foreign and domestic investment have gained momentum. Several analysts are now predicting Italy will be Europe's best performing major market in 1990.

"You may only see a developing market like Greece outperform Italy," says Paolo Baccanella, an analyst with Schroder's Securities in London. The Milan Stock Index is up 9.3 percent since January, and in Europe, only Greece and Norway have seen their local markets appreciate more.

Until May, the Milan Stock Exchange had displayed a fairly flat performance for the year. But the results of local elections on May 6, widely viewed as favorable to the market, and a 1 percent cut in Italy's interest rates roughly a week later stirred a sharp rise in stock prices. For the month, the Piazza Affare, the nickname for Milan's exchange, was up nearly 7 percent in local currency terms.

"It would be normal to see some profit-taking at this point, but short- and long-term economic fundamentals are strong," says Mr. Baccanella.

Although he does not discount the possibility that the market could drop a bit in the short term, Mr. Baccanella, like several other analysts, believes a fortuitous convergence of positive economic and political trends will pull the market higher in the next six months.

On the economic front, annual inflation has dropped to 5.8 percent, its lowest level in 15 months. This relatively low inflation rate "should" stimulate another half percent cut in interest rates over the next couple of months," according to Marco Graffigna, an analyst with Banco San Paolo in Turin. Mr. Graffigna also expects the lire to remain strong, which should encourage foreign investment.

On the political front, political instability has given way to a fairly rare period of confidence in the

May Market Scoreboard

Best Performers

	Price May 31	Percent Change
New York Stock Exchange:		
Korea Fund Inc.	23.38	+43.9
Pioneer Financial Serv.	23.38	+41.7
Low's Cos Inc.	47.25	+37.0
Luxotica Group SpA. ADR	26.88	+36.1
Christiana Cos Inc.	13.00	+35.0
Syntrix Computer	27.88	+34.4
Syntrix Technologies Inc.	11.50	+33.3
Donaldson Co. Inc.	30.88	+32.1
Pinnacle West Capital	18.00	+31.9
Fingerhut Cos.	21.39	+31.6

Worst Performers

	Price May 31	Percent Change
New York Stock Exchange:		
UDC Universal Dev. L.P.	16.75	-24.3
Hartmarx Corp.	11.75	-21.7
Tesco Corp.	18.63	-17.2
Hudson Foods Class A	10.25	-15.5
Federal Express Co.	46.25	-15.5
Burlington Coat Fct. Wshs.	13.13	-15.3
TCBY Enterprises Inc.	18.50	-14.5
Craig Corp.	16.25	-14.5
Interlake Co. (New)	10.38	-13.5
Robertson, H.H. Co.	10.38	-12.8

American Stock Exchange:

	Price May 31	Percent Change
AT&T Co.	21.88	+57.6
Catalina Lighting Inc.	10.75	+50.8
Santitas Inc.	19.38	+40.8
Elan Co.	19.38	+39.6
Southern Union Co.	18.50	+39.3

Over the Counter:

	Price May 31	Percent Change
Sarna Corp.	11.13	+161.9
Epicon Data Mgmt. Inc.	18.25	+82.5
ECI Telecom Ltd.	25.38	+75.8
Responics Inc.	31.50	+65.6
Software Toolworks	22.75	+61.0

BSE Ocean Carriers Ltd.

	Price May 31	Percent Change
BSE Ocean Carriers Ltd.	11.50	-27.0
Eastgroup Props. SEI	13.00	-25.0
Advanced Medical Tech.	10.88	-20.8
California Energy Inc.	10.38	-20.2
Perini Corp.	21.25	-19.0

London Stock Exchange:

	Price May 31	Percent Change
London Stock Exchange:		
McCarthy & Stone	63	+43.2
Laura Ashley Holdings	69	+35.3
Burton Group	185	+25.0
Burzell	98	+22.5
Racal Telecommunications	376	+21.7
De La Rue	251	+21.3
Williams Holdings	232	+21.2
Tarmac	229	+21.0
Asco (BSR)	82	+20.9
Rathens	266	+20.4

Tokyo Stock Exchange:

	Price May 31	Percent Change
Tokyo Stock Exchange:		
Honsha Paper	2,620	+54.6
Nippon Chemical Ind.	2,550	+51.8
Mitsubishi Steel Mfg.	1,780	+43.1
Korita	1,588	+39.3
Mitsui Mining Co.	1,210	+36.7
Nippon Carbon	1,010	+36.7
Ushio	1,540	+35.1
Joyo Bank	1,800	+33.3
Jedi	1,450	+33.0
Tokyo Department Stores	1,820	+32.8

	Price May 31	Percent Change
London Stock Exchange:		
Ferranti International	39	-11.4
United Scientific Hldgs	63	-8.7
Amstrad	64	-5.9
Beazer	132	-5.7
Smith & Nephew	114	-4.2
Frankie Hovis McDougall	348	-4.1
Exxon	545	-3.8
London International	215	-3.5
Dalgety	348	-3.1
Amersham International	271	-2.9

	Price May 31	Percent Change
Tokyo Stock Exchange:		
Fujitsu Tourist (Kanto)	4,150	-13.5
Chuo Pharmaceutical	5,540	-8.6
Izumi Motors	1,540	-5.5
Yokohama Specie	5,020	-5.4
Ricoh	1,130	-5.0
TDK	6,570	-4.5
Nippon Yusen	758	-4.1
Daiichi Pharmaceutical	2,420	-3.6
Suzuki Motor	800	-3.3
Hirose Electric	6,300	-3.1

CURRENCIES

New Fund
Causes
A Stir

Continued From Page 13

options and forwards, like futures contracts, allow investors to buy a particular currency at a set price by a certain date. If the fund buys a currency under this system, the option or forward contract will specify a price that is above current exchange rates. If the fund sells a currency under this system, the option or forward contract will specify a price that is below current exchange rates. Because currencies must appreciate or depreciate for options and forward contracts to be profitable, they cost very little.

"Leveraging makes us more volatile than regular currency funds," acknowledges Nigel Tursley, a director of GaiaCorp and the head of the fund's London office. "But the basic system of going both short and long, and investing in a wide range of currencies makes our system basically safer and more dependable than other currency funds."

Mr. Tursley argues that the greater safety of the Gaia model is essentially what allowed the firm to create "a new aggressive asset class that is more comparable to a stock or bond than to a currency fund."

Gaia managers say both they funds have fallen into their predicted range of volatility. But that does not mean that Gaia's notion of an acceptable level of volatility is in line with that of the typical investor. For example, the managers of Gaia Hedge II expect to see occasional drawdowns of as much as 40 percent, while Gaia Hedge I was designed with the expectation that it could lose about 16 percent at any one time.

But Mr. Tursley argues that the traditional managed currency funds have displayed far more daunting swings in value. A traditional currency fund with no short positions, similarly leveraged, but only investing in four or five currency varieties, "would have a volatility in excess of 100 percent."

U.S. Banks Tackle Forex

CUSTOMERS of U.S. retail banks over the years have found them largely disinterested in providing foreign-exchange services. While many larger U.S. commercial banks do an active foreign-exchange deposit business through their branches abroad, an inquiry by a U.S. retail customer about opening an account in any currency other than dollars tends to be greeted with a blank stare.

But in recent months, a few U.S. banks have ventured into the business of non-dollar bank accounts. Part of the reason is a change in Federal Reserve rules that took effect at the beginning of this year, clearing the way for domestic U.S. banks to accept deposits in currencies other than the dollar.

But users of these new services should not expect any deals. These deposits are subject to the same reserve and insurance requirements as domestic deposits, and the bookkeeping costs associated with foreign-exchange transactions mean that the banks offer few breaks on fees, yields or minimum amounts. Indeed, at this point, banks are still working out the pricing details.

Bank of America took the lead in pressuring the Fed to ease the rules on foreign-

currency deposits. Now, the bank plans to offer foreign-currency deposit services in 10 European and Pacific Basin currencies, initially limiting the service to its corporate clients.

Other banks planning to offer retail currency deposit services include Citibank, and two "super regionals," First Chicago and First Wachovia Bank of North Carolina. At Wachovia, any client with the equivalent of \$5,000 may open a noninterest-bearing account. To earn interest, the North Carolina bank will require a minimum deposit of \$100,000.

The changes in the Fed rules have also made it easier for smaller banks with specialized private client services, and those that target the foreign communities. Commercial Bank of New York, located in the Waldorf Astoria Hotel, offers deposits in six major non-U.S. currencies, with a minimum of \$50,000. General Bank Corp. of Los Angeles, which specializes in serving the Taiwan-American community, has started offering deposit facilities in New Taiwan dollars and in Japanese yen.

Vivian Lewis

Gaia's approach wins admiring comments from other students of the foreign exchange markets.

"Many currency fund managers remain in the Dark Ages," says Eric Gifford, a futures and currency specialist at Investment Research of Cambridge in England. Ms. Gifford says that Gaia's basic approach is both "intelligent and rare" in currency management. She adds that it is not at all surprising that the fund's philosophy is viewed with suspicion.

"Research and understanding of currency investment is poorer than that for any other asset class," she explains.

According to Ms. Gifford, there are a few firms that have begun using a similar investment philosophy in managing corporate and institutional money, but not many. The reason is a Gaia-type investment style of combin-

ing short and long positions in a wide range of leveraged currency investments is rare has to do with what she calls the "split nature" of the world's financial markets.

"Without a computer-driven investment program that buys and sells on historic price trends, running such a portfolio is not possible," notes Ms. Gifford.

"The trouble is that the home of technical analysis, as well as futures and options expertise, is in the United States, and that they have always been quite parochial on the subject of foreign currency investment," she says. European markets have traditionally paid more attention to currency moves and have understood them better, because of the larger amounts of cross-border trade. "But, unfortunately, the benefits of selling short and using forward and option contracts have never been appreciated," says Ms. Gifford.

FUNDS

Using Warrants to Bet on Funds

Continued From Page 13

than 100 percent of the money raised actually is invested.

"Since the issues have 5 percent [of the assets] knocked off for the underwriting expenses," notes Hugh Young, portfolio manager of London-listed Abtrust New Thai Investment Trust, "they offset that cost for investors. It makes them happier."

But it is as a trading vehicle that can be bought or sold at any time that investment trust warrants have become a niche investment for individuals. Generally priced at less than \$1 apiece, they enable an investor to test new waters in specialized areas of investment for a minimal cost.

At even bigger attraction — and risk — is their leverage. Because an investor only has to put up a fraction of the value of the underlying fund shares, warrant prices can swing much more widely than the price of the fund itself.

"They're more exciting, more volatile," notes Mr. Young of Abtrust. The warrants on his New Thai Investment Trust have traded between 35 pence and 65 pence since the fund was launched last December.

But another fund manager's view of warrants points up their downside. "I'm not against them," says Mark Lightbown, a director of Genesis Investment Management, "but we are long-term oriented and warrants tend to introduce speculative elements. They are open to abuse in 'hot' markets." Genesis decided to structure their Emerging Markets, Chile and Malaysia funds without warrants after their institutional clients displayed little interest in them.

Indeed, the institutions that dominate the investment trust market usually sell off their warrants shortly after a fund's launch, creating the separate marketplace where individuals can enter the picture.

But the fast-moving nature of these instruments makes it particularly important that investors choose carefully, preferably with the counsel of a professional, says Roger Adams, a director of S.G.

Warburg Securities. As a trader in the warrant market, he has developed several "golden rules" to guide investors.

One of his most important rules is to select warrants with long lives. "That way, if you make a mistake, there's time to overcome it," says Mr. Adams. The longer the life, the more expensive a warrant. As it nears its expiration date, its value diminishes along with the chance to exercise or sell the warrant, until it expires worthless.

Equally important is taking a close look at the solidity of the underlying fund shares backing the warrant, since their performance will drive the warrant price. "Choosing a warrant is partially an art," observes Mr. Adams, "and that art is knowing the underlying shares."

In general, Mr. Adams advocates buying warrants whose exercise cost is only moderately above that at which fund shares are trading. To figure a warrant's premium, as it is called, add the cost of the warrant and the price at which the underlying share may be purchased. Thus, a warrant trading at 10 pence with an exercise price of 100 pence per share would cost 110 pence a share to exercise. If the fund is trading at 83 pence a share, then the premium is the percentage by which the exercise price exceeds the share price — in this case, 33 percent.

Mr. Adams acknowledges that higher premiums can be acceptable if a trust's prospects are particularly rosy. But he stresses that premiums should be watched carefully. An investor should also look for as high a leverage to the underlying share price of the trust as possible, he says.

Mr. Adams recommends only listed warrants with liquid markets and suggests seeking out brokers who specialize in these instru-

ments. He notes that spreads between prices can be large and advises fixing a purchase price with the broker. "Think of warrants as spicing up your portfolio, and don't put in what you can't afford to lose," he warns.

Mr. Adams' current favorites indicate the diversity of the warrant marketplace. For long-term investors, he likes warrants going out to the year 2000 on Foreign & Colonial's Germany Fund.

"They're not cheap, but they could be tremendously valuable because of German reunification," he says. For those keen on smaller European companies, he picks warrants on a newly launched fund, the Fleming European Fledgling Trust. He also suggests warrants on a generalist fund, the Scottish Investment

Trust, with one caveat: "Generalist funds are more vulnerable to takeover bids, and if the fund liquidates, the investor can lose his stake."

Whatever the pitfalls for individuals, London's financial community is losing no time in coming up with new warrant products, some of them fairly exotic. In the planning stages at Abtrust is an investment trust made up exclusively of warrants covering the small Asian economies. A warrant with an unusually long life of 15 years is a feature of a trust specializing in Latin America, about to be launched by S.G. Warburg.

Moreover, warrants on investment trusts may not remain exclusively British. Mr. Adams predicts they will eventually cross the Atlantic to the U.S. closed-end "country" fund market, where he believes stiff competition will induce issuers to adopt them as sweeteners to their funds.

As for investors, "They need hand-holding and educating," acknowledges Mr. Young. "They're new markets for all of us."

Selling Risk in Sweden

By Errol G. Rampersad

FOUR years ago, Sweden's first options exchange based on the international model was launched. This was followed in the spring of 1987 by yet another, Sweden's Options and Futures Exchange.

Today, despite a downturn in the economy, trading in options

related to "restricted" shares, but cannot exercise options on restricted shares.

Despite the incentives for local investors, heavy capital gains still make it far more profitable for Swedes to put their money overseas. This has recently led to the creation of small but selective investment houses that are giving the traditionally large banks a run for the private and institutional investors' money.

One of the more innovative among these is Svenska International Securities, which is described by its managing director, Johan Borelius, as a "risk seller rather than a risk buyer."

Through a "tripod" network, Svenska International offers investors, both Swedish and foreign, the possibilities of equity investments in Stockholm, Zurich and Frankfurt. In addition to its operations in these countries, it also has a Svenska Securities Svcav, an umbrella fund, run out of Luxembourg.

The Luxembourg-based Svcav, like the Svenska, Germania and Helvetia selection funds linked to Svenska International, offers management of shares at a low risk. Mr. Borelius says, "As we see it, the future is in funds," he says, adding that "we are hedging all the time."

Anders Troive, director of Svenska International in London, says Svenska International's solid knowledge and long experience of covered call strategies puts it among the top investment houses in Scandinavia.

Mr. Borelius links the success of Svenska's strategy to diversification, an element, he says, that is not very common in the smaller Scandinavian investment houses. "We operate on the same concept in the Swedish, Swiss and German markets," he notes. "First and foremost, there is selectivity. We are only buying the largest shares in each country. This means companies that are internationalized and where shares are easy to obtain since turnover is big. A major part of these shares can be traded through options, and we lower our risks by using the option markets."

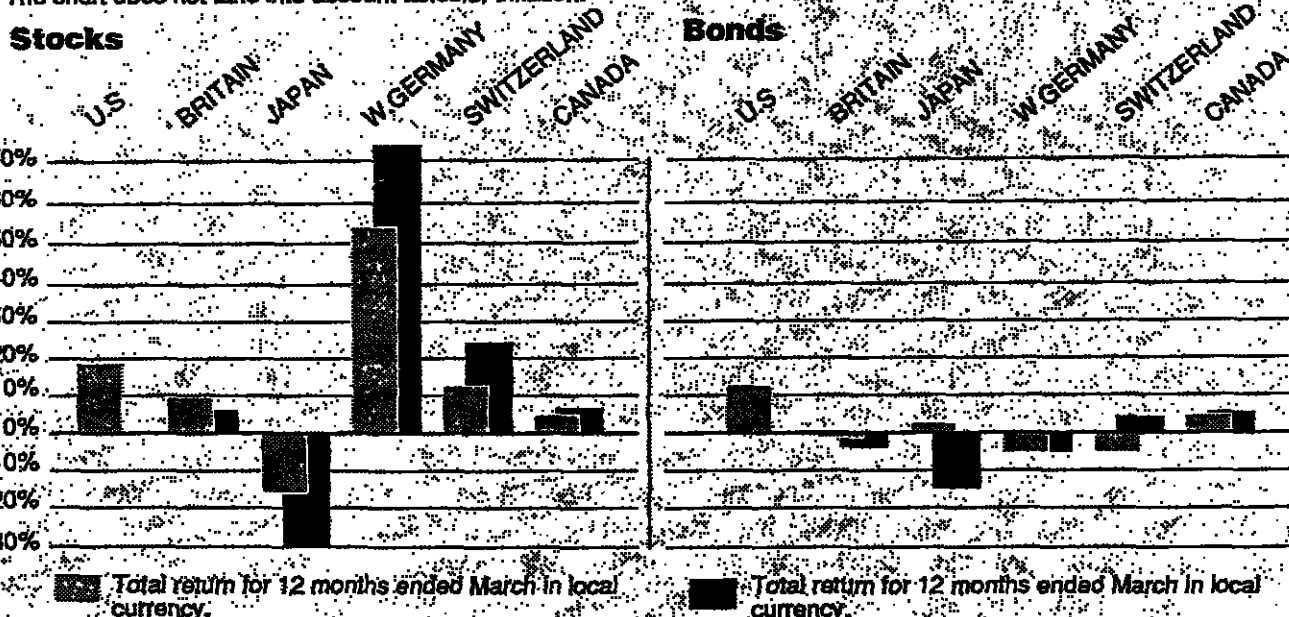
Johan Borelius

has become a very successful financial instrument in Sweden. Moreover, rigid limitations for foreign investors are gradually being removed.

According to regulations released by the Stockholm Bourse, foreign investors are only permitted to buy "nonrestricted" or "free" shares. About 25 percent of the total Stockholm market value consists of nonrestricted shares. Foreign investors may, however, also trade in stock options that are

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Turkey

Winning World Markets: The Challenge of the '90s

Now that the 1980s are over and the '90s have begun, the temptation for Turkey is to assume that the success story of the previous decade can be repeated and that the strong, guiding hand of President Turgut Ozal will continue to lead the nation to take its position as a serious player in the world economy.

In retrospect, the '80s will be remembered as the Ozal Era. On January 24, 1980, Mr. Ozal emerged on the public stage as deputy undersecretary for economic affairs when he proclaimed his "January 24 Decisions"; the decade ended with Mr. Ozal's rise to the pinnacle of power when he assumed the presidency in November 1989.

In 10 years, Mr. Ozal has left his personal stamp across the political and economic landscape of the country — initiating a long-needed

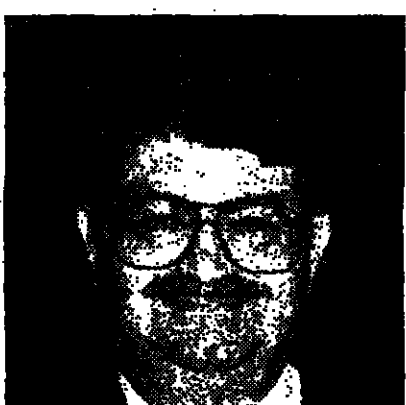
Minister Ozal to president last November was not an easy political pill to swallow for much of the electorate. Businessmen and political observers feel there is a need for early parliamentary elections to prevent the formation of a power vacuum, a situation which was exacerbated by Mr. Ozal's appointment of the little-known Yildirim Akbulut as ANAP party chief and prime minister.

Mr. Akbulut's choice of cabinet has also been unpopular and has resulted in the resignation of some experienced past ministers such as Mesut Yilmaz (foreign affairs) and Ekrem Pakdemirli (finance and customs). Others, such as the former mayor of Istanbul, Bedrettin Dalan, quit the ANAP to form their own political parties.

In addition, the opposition party has been reluctant to even acknowledge Mr. Ozal as president.

All this has come at a time when the gross national product has started to decline from a peak in 1987 of 7.4 percent to 2 percent last year. The rate of inflation in 1989 was an unacceptable 60 percent. While not welcomed by the construction sector, cutbacks in public expenditure should help to stabilize inflation for the current year.

Better results were obtained by

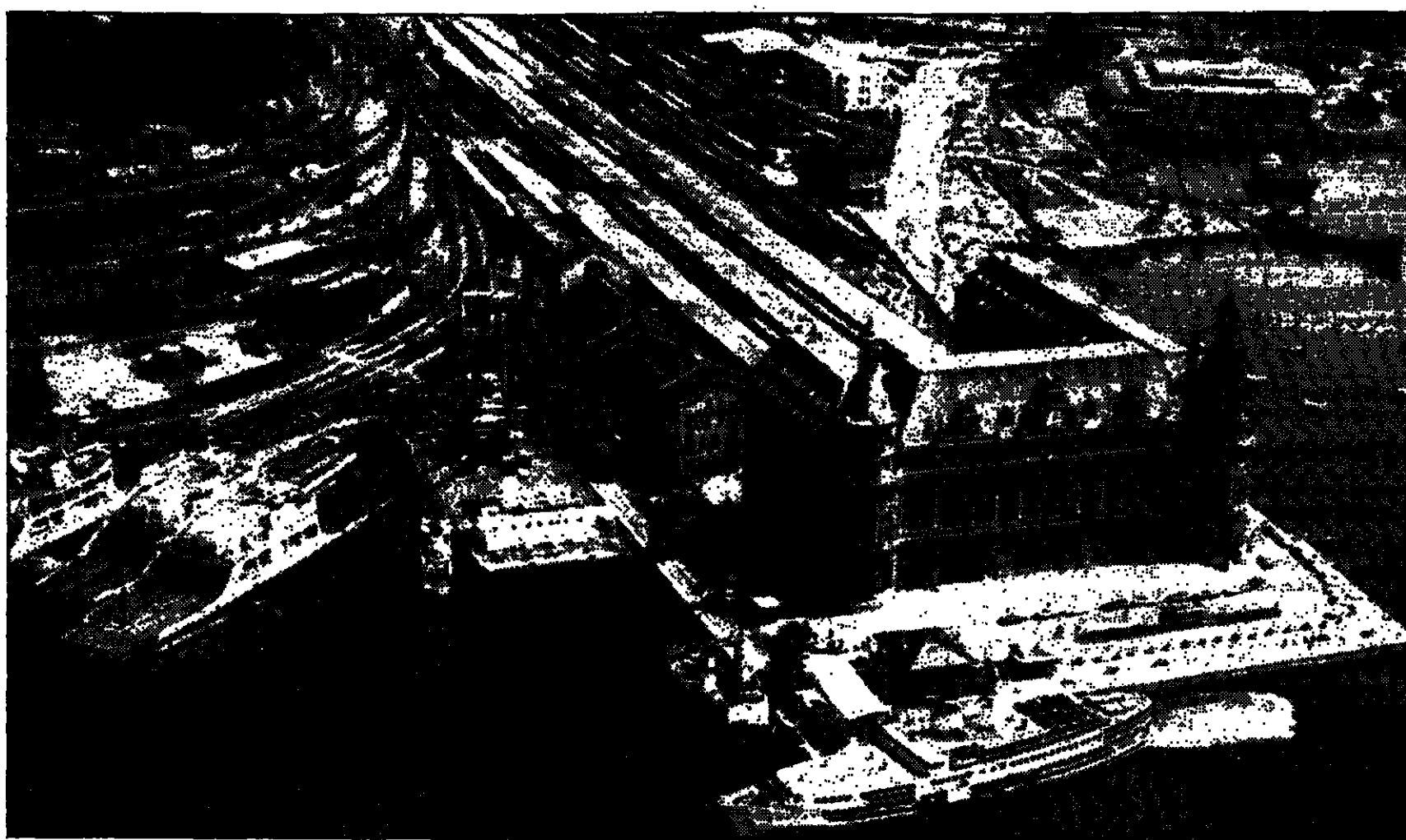


President Turgut Ozal.

industrial production, which showed a rise of almost 10 percent in the first few months of this year. New investments in industry, particularly in the automobile manufacturing sector, are starting to pay off despite some snags over privatization issues.

However, the sell-off of Citicent Cement works in a \$105 million

Continued on Page 16



Haydarpasa Railway Terminal, Istanbul, on the Asian side of the Bosphorus. From here, trains cross Turkey into Syria.

Bankers Set to Fight Inflation, Bad Debts, Red Tape

Difficulties in the sector began in the 1980s, when it had to adjust to free market conditions in an increasingly competitive environment. Until the opening up of Turkey's tightly closed economy in 1980, the Central Bank held interest rates under strict control. Loans to business were cheap, and real interest rates on deposits were negative.

The shakeout of the system began with the freeing of interest rates, which rose continually during the 1980s to eventually outstrip inflation.

By October 1988, annual interest rates to savers had risen to 80 percent, while borrowers' rates had skyrocketed to a crippling 150 percent to keep up with inflation.

A year later, when depositors came to reclaim their savings, the rate of inflation was around 70 percent, but interest rates had dropped to just over 60 percent. Low demand from industry for expensive credits had forced the banks to abandon positive interest rates. It was feared that depositors would withdraw their savings en masse, but low returns on foreign currency and gold prompted savers to stay with the banks. Turkish bankers are now looking forward to what they

"The 1990s are going to be tough for the Turkish banking sector," says Rusdu Saracoglu, governor of Turkey's Central Bank. For many Turkish bankers, Mr. Saracoglu's words are an understatement.

believe will be a more profitable commercial environment.

The sector is dogged by a number of chronic problems, however, of which non-performing loans remain the most serious. Although interest rates have now come down to around 55 percent, many borrowers have defaulted on their payments. Turkey's state-owned banks, long hampered by debilitating portfolios of bad debts (mostly owed by state-owned enterprises), have been the hardest hit. Of around 60 institutions, they accounted for TL1.6 trillion (\$720 million) out of a total of TL2.4 trillion in non-performing loans in the banking system as of June last year.

To cope with this situation, the government recently required banks to raise their total capital base to at least 5 percent of their assets, and to 8 percent by 1992. The banks will also be required to have a minimum capital base of 20 billion Turkish lira.

The introduction of a unified ac-

counting system and external auditing has reinforced stricter supervision of the banks.

As the rules of the game continue to change, Turkish banks have had to reassess their roles and strategies in what is rapidly becoming a fiercely competitive market. Adjusting to the changes has been hardest for the eight commercial state-owned banks, which suffer most from under-capitalization, bad loans and red tape.

But some much-needed changes have recently been introduced by Western-style managers brought in to overhaul the state banks. In order to rationalize the banks' operations, the new managers have set in motion a series of mergers and transformations.

The revamping of the State Investment Bank into the export-import credit institution Turk Eximbank has been one of the most successful transformations. Eximbank's MIT-educated and World Bank-trained manager Turgay Oz-

kan confesses that "it was no easy task." But in the two years since its establishment, Eximbank has already developed into a full-fledged export-credit and insurance institution.

Eximbank financed 20 percent of total exports in 1989, Dr. Ozkan says. "We have also managed to recover all of our bad loans. It's been a really good year."

Eximbank plans to finance 35 percent of the \$12.8 billion worth of exports targeted for this year. The treasury recently announced that it would take on all of the political risk for loans extended to overseas customers.

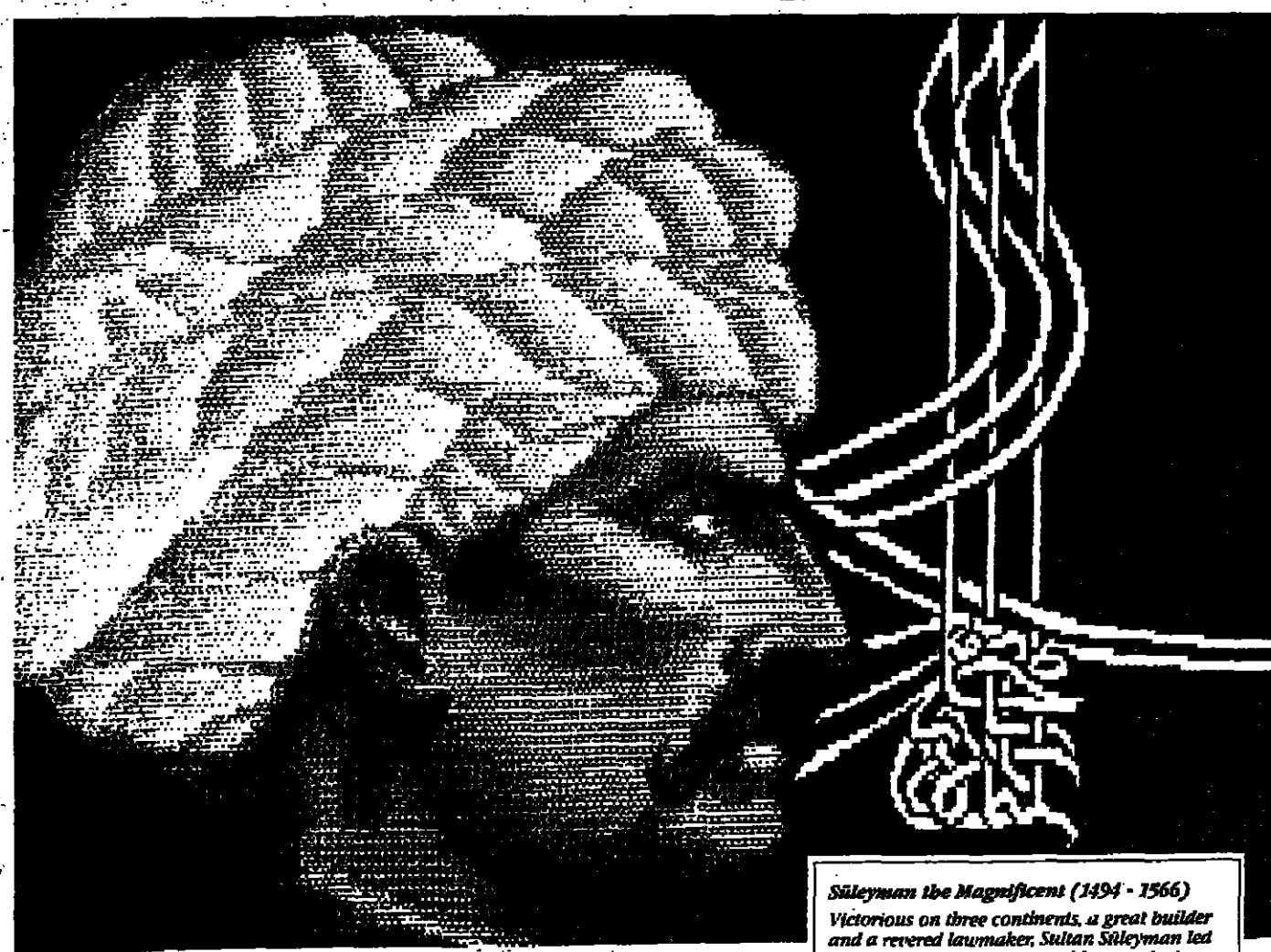
This year the bank hopes to push further into the East European and Middle Eastern markets where it is already active. Last year, Eximbank extended \$300 million to the Soviets to finance the purchase of goods and services from Turkey, and it is to supply \$350 million more this year to finance Turkish contracting.

The bank will also extend loans of \$100 million both to Poland and Hungary and hopes to strike similar deals with Bulgaria and Romania.

In 1989, a major merger took place, between tourism credit bank

Continued on Page 16

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Süleyman the Magnificent & his monogram. Computer image by E. Selan.

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Bullish Outlook as Istanbul Stock Market Matures

After a series of teething problems and a relaunch in 1986, the exchange is finally finding its level.

The index in mid-April was around 3,250, with a daily trading volume of around 20 billion Turkish liras (\$9 million). Although that is far from the 200 billion Turkish liras once thought necessary to persuade Turkey's mainly family-owned industrial sector that the time had come to release jealously guarded equity, there are indications that many are now ready to do so. A first move in this direction was taken in early April by the Sabanci Group, which announced it would sell 15 percent of its textile subsidiary, Yuasa, to the public.

Share values rose because they proved more attractive than other savings instruments, such as gold, foreign exchange and real estate. In

After last year's heady expansion, Istanbul's small stock exchange (IMKB) seems to be settling down. A bull market in 1989 pushed up share values sixfold, and the index rose to record heights.

August, share values were given a boost with the easing of cross-border capital flows, thanks to Decree 32, which aimed at taking the lira another step on the road to convertibility.

The August package allowed foreigners to purchase Turkish stocks and bonds, with guaranteed repatriation of proceeds. It also included permission for Turkish nationals to make purchases in Turkish liras of equities and bonds from stock exchanges in London, Zurich, Frankfurt, New York and Tokyo.

Since then, foreign investors have

consolidated purchases in Turkey, while two dedicated external investment funds have bought blocks of blue-chip shares, and a third may be established soon.

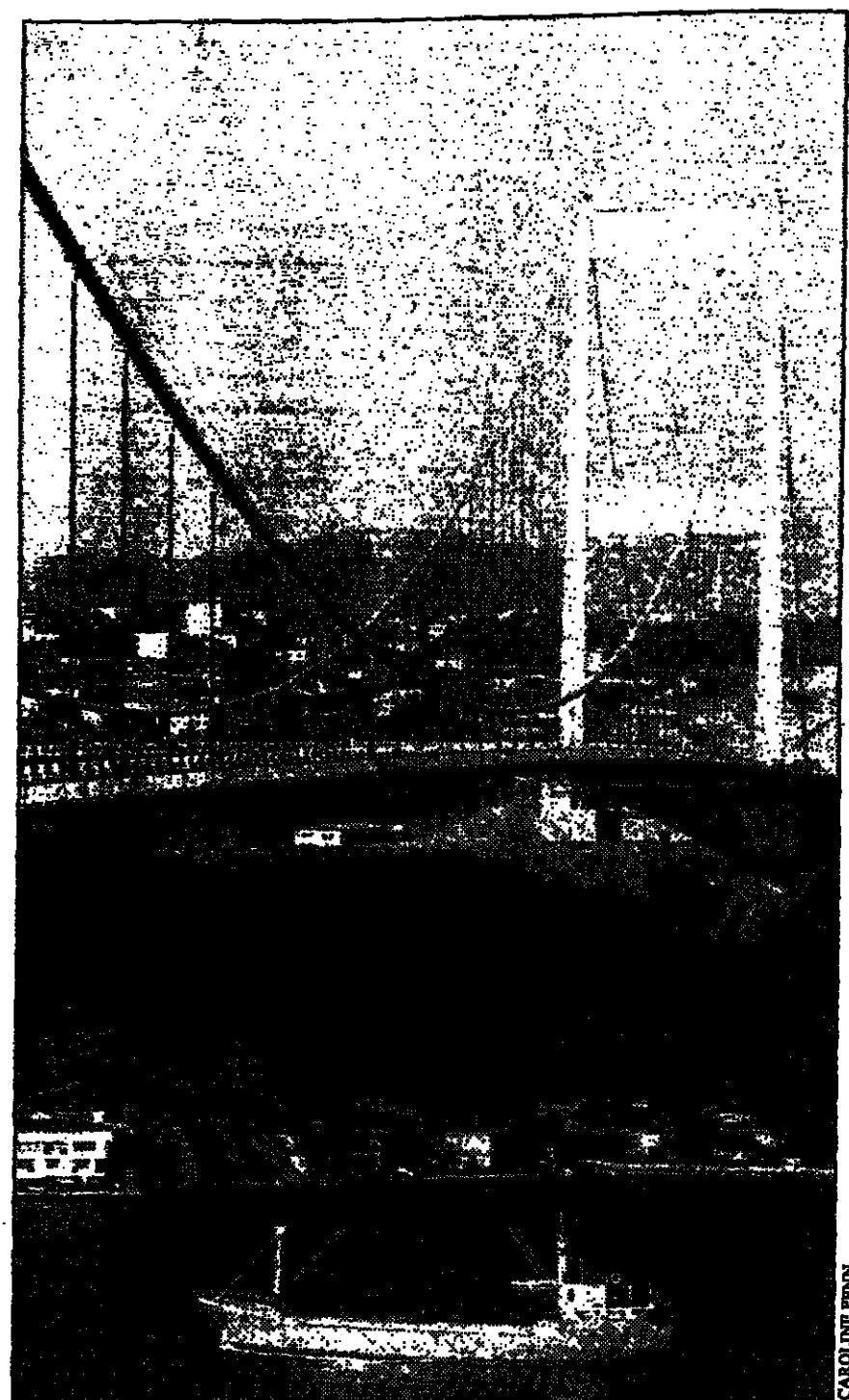
The new director of the exchange is Yaman Toruner, formerly general manager of money markets and director of fund management at the Central Bank. Mr. Toruner took over from Muharrem Karali, who presided over the boom last year but declined on health grounds to stand for another term.

The recent lull was partly caused by investors who have been waiting

on the sidelines for privatization issues of government minority holdings in blue-chip private sector companies. The first issues in market leader Ereğli Iron and Steelworks sold out very quickly in the second week of April, apparently unaffected by the controversy over the sales of state companies to foreign interests elsewhere in the privatization program. Nurturing the exchange is one of the main goals of the privatization program.

"Though the short-term outlook is mildly bearish, in the medium term it looks bullish," says a senior IMKB executive. The government is expecting to pass a new capital markets law making insider trading illegal and generally protecting investors with a more structured set of rules and guidelines.

Jed Carter



The new Fatih Bridge, the second to span the Bosphorus.

Banking

Continued from Page 15

Turizm Bankasi and the State Development Bank (TKB), with the goal of bringing "all the development functions in the financial sector under one umbrella," says Ismail Emen, the bank's new general manager.

But he believes that TKB's "development mission" has been completed. "We are now going to enter the more profitable areas."

The stock exchange, which took off last year after the government opened both the bond and stock markets to foreign investors, is rapidly becoming a lucrative form of business for the country's 33 privately owned banks. The commercial banking giant, Is Bankasi, has

set up four mutual funds, which, according to Unal Korukcu, the bank's general manager, have all been sold out. "Their current net portfolio value is TL235 billion," Mr. Korukcu says, adding that Is Bankasi's volume of business on the Istanbul Stock Exchange jumped by a dramatic 635.4 percent in 1989.

Smaller specialized institutions have been particularly adept at finding profitable niches in the market. Of these, Turk Ekonomi Bankasi (TEB), which set up shop eight years ago, is one of the top five participants in capital market and treasury operations. In 1989, its trading volume of government bonds and treasury bills totaled TL3.161 billion, or 6 percent of total sales. Income from trading of marketable securities reached TL413 billion, a five-fold increase over 1988. And in 1990, TEB expects to capture 9 percent of the market.

Another active player on the market is Asil Nadi's Impexbank. As of March 30, 1990, the bank's total footings reached TL480 billion, with an equity capital of TL37 billion.

Trade financing continues to be a major source of income for Impexbank as it does for most of the smaller banks, although Turkey's export drive has slowed down with the phasing out of export subsidies and the gradual depreciation of the value of the Turkish lira against the U.S. dollar. The range of trade-financing services expanded accordingly.

Meanwhile, consumer and housing loans and credit cards are becoming popular means of increasing lending and spreading risk.

Automated Teller Machines (ATMs) have proliferated, and customer services in most banks are now fully computerized. For example, as of April 1990, Isbank had 252

ATMs, over 500,000 ATM card holders, and 500 on-line branch offices. "Now 90 percent of the total volume of our banking operations is computerized, which has allowed us to cut down on personnel and lower costs. In 1989, the number of employees fell by 552 to a total of 20,212," says Mr. Korukcu.

"Overall, we haven't done so badly," reflects an Istanbul-based banker, but he adds that inflation continues to be a problem.

"The new minister of finance, Adnan Kahveci, has vowed to bring the budget deficit under control, and with no elections this year political considerations will not override economic ones, as they did last year during the municipal polls held in March," says Mr. Emen.

Meanwhile, life will become tougher for the banks but, as Mr. Saracoglu says, "we are braced for the challenge."

Amberlin Zaman

The New Challenge

Continued from Page 15

deal with Société des Ciments Français has been founded, as has Scandinavia Air Systems' \$14.5 million bid to act as handling agents at state airports.

Although trade with the Middle East has not boomed as hoped, Turkish contractors have made inroads — most notably with a \$320 million civil-works scheme won by Istanbul-based BMB construction group over several foreign rivals to build a multibillion dollar oil-fired thermal power plant in Kuwait.

Under Mr. Ozal's tutelage, many firms, such as ENKA, STFA, GAMMA and KISKA, have graduated to an international level.

The major bright spot on the horizon is the prospect of expanding trade with the Soviet Union and Eastern Europe.

As late as 1988, Turco-Soviet trade was so negligible that it was listed under "other" in import-export breakdown figures — while Turkey's traditional trading partners in

Expanding trade with the U.S.S.R.

the European Community had more than 70 percent of all business.

All that is now changing. Spurred by the cold-shoulder treatment of its 1987 application for full EC membership and stimulated by the huge natural-gas deal between Moscow and Ankara signed that same year, Turco-Soviet trade has taken off, rising from \$271 million in Turkish exports in 1988 to \$705 million last year. Imports — primarily natural gas — rose from \$443 million in 1988 to \$597 million in

1989. The most recent bilateral trade figure of \$1 billion is expected to increase to \$5 billion within a few years.

Turkish banks have recently floated a new \$350 million credit to Moscow to finance Turkish consumer-good exports, as well as several turnkey construction projects in the Soviet Union.

Eastern Europe is another ready market for Turkish goods and services — if Turkey can jump on the train fast enough.

As President Ozal says, Turkey may even stand as a "textbook case" for emerging East European economies as they throw off state subsidies, face up to inflation and join the world market.

Turkey took that road in the '80s. It must now face the new challenges of the '90s.

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Foreign Investment Up as Domestic Market Opens

Industrial output in Turkey once again proved its resiliency by recovering from a depression that lasted from mid-1988 to mid-1989.

Production in the first two months of 1990 jumped 9.9 percent from the same period in 1989.

"The industrial climate is satisfactory at present," says Momin Hacıoğlu, president of the influential Istanbul Chamber of Industry. "It's improving, but very slowly."

69% of Turkish exports go to EC countries

adds Ergil Eris, managing director of Gama Endustri.

The domestic market is opening up again on the back of liquidity, initially induced by wage and salary increases last summer. Capacity utilization is rising while interest rates are negative to inflation. But looming ahead are potentially inflationary wage settlements, which this year are concentrated in the private sector.

Another difficulty for export-oriented industries, according to one corporate executive, is the loss of export incentives and the depreciation of the lira. Textile producers have been most affected. For most corporations with a balanced export-import mix, such problems should be offset by increased demand in the domestic market. That should be good news for corpora-

tions such as the Sabanci Group, which traditionally has used export and domestic sales to compensate for demand shortfalls in either one.

Textile manufacturers, the backbone of Turkish industry, hope that 1990 will be a better year than 1989, when margins were hit by the government's decision to allow cotton growers to export for the first time. This year the situation has stabilized, partly because domestic cotton prices are also high.

Textiles exports held up well in 1989, rising by 10.9 percent over the previous year to \$3.6 billion, according to the Istanbul-based Textile and Apparel Exporters Association.

With 69 percent of all exports, the EC remains Turkey's main market, West Germany being the largest single purchaser. To make the most of EC quotas — which have reduced exports to Europe to 70 percent of potential — manufacturers are upgrading quality so as to obtain the maximum added value from their products.

Confidence is high in the white goods sector, where manufacturers are quickly expanding to meet increased demand. Though the sector is dominated by major manufacturers Arçelik and Profilo, small producers are now beginning to catch



The MAN car and truck factory near Ankara.

up. The outlook is good: consumerism is growing among Turkish households, 85 percent of which now have refrigerators.

Producers of brown goods such as televisions are also looking toward a bumper year. Production of television sets is expected to rise by 80 percent and exports by 250 percent. Using many imported components, the sector has particularly benefited from the slow depreciation of the lira and sweeping imports reductions.

In the heavy industry sector, iron and steel production were hit in 1989 by a protracted strike by public sector workers. As a result, Turkey's overall steel production fell by 1 percent to 7.9 million metric tons. But the private sector filled the gap, increasing its output by 21.6 percent to take a 58 percent share of total production, despite a severe cutback at one of the major furnaces near Izmir due to a faulty transformer. Production figures, however, have not yet stimulated sufficient confidence to promote investment on a scale that would make Turkey a major world industrial and trading power in the 21st century — the goal set by President Turgut Ozal. Last year, investment in additional capacity was actually below 1985 levels in real terms.



Turkish industry desperately needs new technology — which could be provided by increased foreign investment.

Foreign investment is now on a steep upward curve. Actual inflows increased by 57 percent over the period to total \$708 million, according to the foreign investment department (FID) in the State Planning Organization.

In addition, authorization was given for a total of \$1.47 billion worth of foreign investment inflows, most of it in manufacturing, which registered 61.2 percent, followed by services with 37.3 percent.

"I am very optimistic," says Dr. Ibrahim Cakir, head of the FID in the State Planning Organization. Dr. Cakir says that this year's first quarter approvals for investments were well over those for the same period in 1989. He expects actual inflows of \$1 billion this year and approval of projects valued at \$2.5 billion that are still in the planning pipeline.

The inflows should also substantially increase this year if major projects planned on the basis of "build-operate-transfer" are completed, says Mr. Cakir. Nearing final contract stage are the first phase of the Ankara subway, valued at around \$500 million, and the \$1 billion project to build a new passenger airline terminal, with an associated trade center, at Istanbul's Ataturk International Airport. A project for Turkey's first major BOT thermal-power station valued at around \$960 million at Aliaga near Izmir has met with unexpected environmental opposition, but construction is expected to go ahead.

The recovery is most marked in the automobile sector, where the major manufacturers all increased production to meet soaring demand from consumers anxious for a hedge against inflation at a time of relatively high liquidity but negative interest rates. The combined production of Turkey's carmakers, Oyak Renault, Tofas (Fiat licensee),

and Otosan (Ford), rose by 65 percent in March, compared with the same month in 1989, to total 14,347 units, the market leader being Tofas.

Domestic sales this year are expected to increase by 35 percent to 160,000, a realistic estimate according to the president of the Automobile Manufacturers' Association, Ali Ihsan Ilkbahar, also general manager of Fiat licensee Tofas. Projections are that demand will steadily increase to an annual 500,000 units by the year 2000, when Turkey's existing automobile manufacturers, which were founded as import substitution industries in the late 1960s and early 1970s, will have a combined annual output of 260,000 units.

Having entered the market after last summer's deregulation of cross-border capital flows and import duties, Toyota and the local Sabanci Group have now agreed to construct a facility near Adapazari to assemble the former's Corolla 1600cc car. The investment package, valued at up to \$500 million, is aiming for an eventual annual capacity of 100,000 cars. France's Citroën and Peugeot are looking at a project of a similar size. General Motors' subsidiary Opel is already building a production line for its Vectra model near Izmir. With an annual capacity of up to 15,000 cars, it will be only part of a DM90 million (\$54.5 million) automobile investment package.

Established local manufacturers claim the market will now be swamped. Not being entirely deaf to their pleas, the government has introduced a decree giving the motor industry special status, with expanded incentives, such as tax free imports for investment packages and premiums from the Resource Utilization Encouragement Fund.

The Sabanci Group has entered into a major investment project with the U.S. company Philip Morris and the state tobacco and drinks monopoly Tekel to make the U.S. company's cigarette brands in Turkey. The planned investment cost of the project is around \$200 million, and includes the completion of a Tekel factory in Cigli near Izmir.

But Turkey has to be careful so as not to be overtaken. "Now we have to be careful of Eastern Europe," says Mr. Hacıoğlu. He also points out that the recent controversy over court cancellations of privatization deals with foreign companies based on a 1987 ruling that state holdings should be offered to Turkish interests first damaged Turkey's profile in the eyes of foreign investors.

Jed Carter

Financing the Future

With an annual turnover of more than US\$4 billion, the Sabanci Group is one of the largest companies in Turkey and has been ranked by Fortune magazine as the 186th largest company outside the United States.

Developed by pioneering entrepreneur Raci Omer Sabanci, who died in 1966, the company is now run by his six sons. Its interests include automobile manufacture, banking, textiles and electronics.

Less well-known outside of Turkey are the group's charitable activities in the social and welfare fields. In 1974 the Sabanci brothers created the Sabanci Foundation to broaden the scope of the

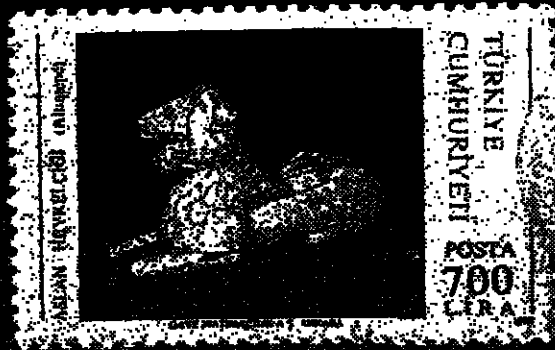
group's activities. The foundation is funded on an annual basis by both the group and the family, although most members of the foundation's governing board are not part of the Sabanci family.

A non-profit organization, the foundation has completed 63 construction projects, including 28 schools and dormitories, health, sports and social clubs in 28 different locations. All the completed facilities have been handed over to the Ministries of Health and Education.

The Sabanci Foundation also awards monthly scholarships to about 1,500 university students.

Lee Veysey

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Energy Boom Creates Welcome Trade Surplus

"A lot of units have come on line very quickly, especially the new natural gas-fired plants at Ambarli and Haydarabad outside Istanbul," explains Mehmet İndap, assistant undersecretary at the ministry. "But it would be incorrect to think of Turkey as a long-term exporter of power: all the dams and power plants are ultimately designed to serve our own industrialization program."

Still, short-term plans for increased energy production mean

Turkey will soon be an energy exporter

that Turkey will be a significant exporter in the coming years.

The agreement with Italy, for example, would call for the export of one billion kilowatts per year. Other likely markets are the Arab states to the south, whose air-conditioning needs fit neatly into Turkey's summer usage lull. Already talks have begun with Iraq, Syria, Jordan and Egypt concerning the creation of a vast regional electricity net, with the Arab states importing from Turkey.

The country's power supply is expected to increase from last year's 70,760 (45,738 thermal and 25,022 hydro) along with 1360 imported to 80,283 (51,767 thermal and 28,516 hydro) with 160 imported this year, to a total gigawatt capacity of

Turkey, long an energy importer, has in recent years produced so much excess power — be it geothermal, thermal or hydroelectric — that the Ministry of Energy and Natural Resources is now seeking deals as far away as Italy to export the surplus.

104,002 when the massive turbines at Atatürk Dam begin functioning in 1992.

Scores of hydro-electric dams are now planned for the country's rivers, while geothermal power is being tapped and no less than five Build Operate Transfer (BOT) thermal power plants — fed by imported coal — are under way or under consideration. In addition, Turkey is considering building its first nuclear power station.

But not everyone applauds the new projects; chief among the critics is the country's growing environmental movement.

As the Greens gain momentum, planners are having to face organized groups demanding an end to the indiscriminate construction of power plants.

A Japanese consortium headed by the Electrical Power Development Corporation (EPDC) is planning to construct a US\$950 million 2x500 thermal power plant. The plant, to be built at Aliaga, north of Izmir, was scheduled to be the first major BOT scheme realized in Tur-

key after more than five years of negotiations with a variety of consortia.

The BOT plan, devised by then-Premier and current-President Turgut Özal in 1984, foresaw the direct involvement of foreign consortia in the development of Turkey's infrastructure, with companies building at their own cost without sovereign guarantees from the Turkish state and operating for their profit. In time, they would turn over the factory, plant, bridge or road to the state.

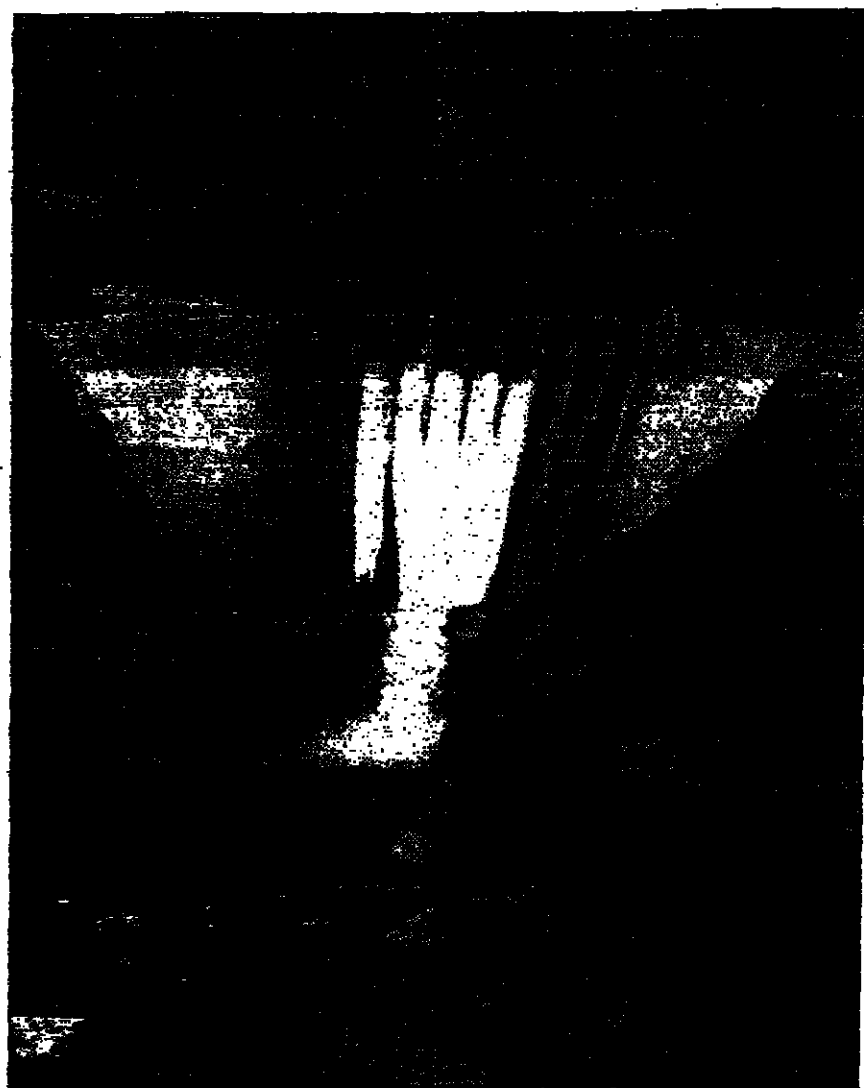
The first of these projects to gain international attention was a thermal-power BOT scheme at Yumurtalik, devised by the Australian group Seapac with its partners Westinghouse and the state of Queensland. But the consortium was unable to come through with the necessary credit for the scheme, which was then up for negotiation with rival consortia headed by Bechtel/Siemens, EPDC, ABB and Alstom, all of whom had similar plans of around 1,000 megawatts per plant. Bechtel was next tipped

to win the contract, but was nudged out by the reformed Seapac group — now with Westinghouse and Chiyoda at the helm. A contract was duly signed by then-Premier Özal, but once again the project collapsed when the group failed to raise the requisite credit. Finally, EPDC group managed to seal the deal and come up with the credits; a new contract was signed, with ground breaking set for the spring.

But suddenly the Greens appeared on the scene. Declaring the project to be an environmental hazard, they have so far managed to postpone final approval of the project by six months, while environmental and social impact studies are carried out. Already, the State Planning Organization has imposed a requirement that the consortium add an anti-sulfur device that will increase costs by \$100 million.

"We have always held the environment as an important issue in our plans, and theoretically, we mean to build only those plants that will have no negative impact on the environment," Mr. İndap says. "But that is impossible, and so we are left with creating power while effecting the least possible damage. We cannot afford to sacrifice the nation's future to hysterical sentiment. To be pro-energy does not mean being anti-environment."

Thomas Goltz



The Karakaya Dam, a GAP project.

Agricultural Reforms Aim to Increase Competition

Last year Turkey experienced its worst drought in 50 years. As a result, agricultural growth plunged by 10.2 percent after having risen by 7.1 percent in 1988. Agricultural exports fell by over 5 percent while imports rose by 43 percent in the first ten months of 1989. The value of wheat imports jumped from US\$2.9 million to US\$380 million during the same period to make up for the shortfall in production.

This year, however, winter rains

Turkey is self-sufficient in food production

have been satisfactory and production should pick up, according to Senol Erdogan, head of the Research and Planning Board of the Ministry of Agriculture. Official forecasts say the sector is set to grow by 4.7 percent this year.

Western diplomatic sources say that Turkey may still remain a net

importer of grain through 1991, as it will take some time before the country can fully make up for the losses incurred last year.

Agriculture has traditionally played a key role in the Turkish economy, employing nearly half of the labor force and accounting for 17.9 percent of the Gross Domestic Product (GDP). Turkey is one of a handful of countries that are self-sufficient in food production.

Under the aggressive export-led liberalization program launched by then Premier Turgut Özal in the early 1980s, a number of structural reforms were set in motion that

have changed the face of the Turkish economy. But the agricultural sector has lagged behind other sectors, provoking a sharp reaction from the European Community, to which Turkey has applied for full membership.

Agricultural support prices remain a major tool in regulating agricultural production. Last year support prices were increased between 70 to 100 percent to compensate for inflation, which hovered at around 80 percent. This year, however, the government appears more determined than ever to push ahead with a shakeout of the sector.

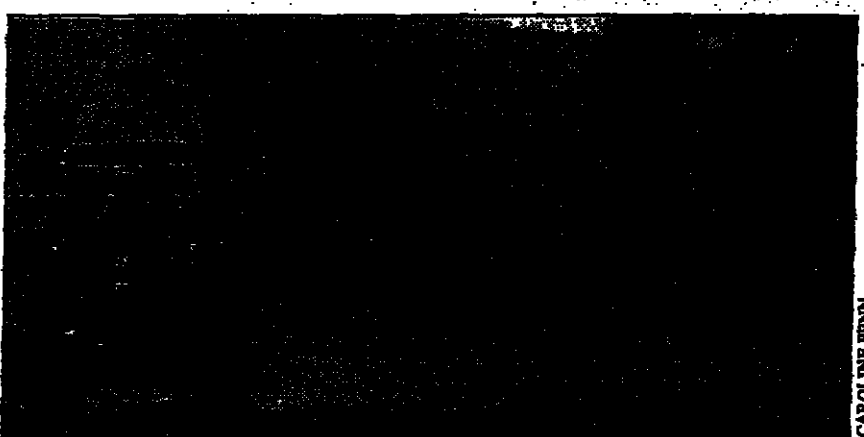
In a move designed to further harmonize its foreign trade regulations with the community's, Ankara introduced a new import regime in January that slashed import duties on many products, including fruits and vegetables.

Not surprisingly, the decision triggered strong reactions among farmers, who accused the government of "betraying" them.

Struggling off such claims, the government maintains that increased competition will pull down prices and help to lower inflation.

The liberalization measures were followed at the beginning of February by the announcement of increases in support prices for tobacco — a major export crop — at levels well below the 54 percent average annual inflation rate forecast for this year.

Angry tobacco farmers took to the streets, vandalizing public and business offices, but the govern-



Plowing fields in Selçuk.

ment refused to bow to pressure and the clamor soon died down.

Meanwhile, the government is pressing ahead with plans to improve land and water resources and expand irrigation. Central to these plans is the ambitious South East Anatolia Project (GAP). To be completed at an estimated cost of US\$12 billion, GAP will transform 29,666 square miles of arid and semi-arid land — covering 9.5 per-

cent of Turkey — into a bread basket for both the country and its neighbors. Export crop production is expected to double, and, once all of its 21 dams are completed, GAP's total hydroelectric generating capacity will be 7,561 MW, increasing the country's present total generating capacity by 70 percent.

"We are on our way to becoming an agro-industrial giant," says Mr. Erdogan. Amberin Zaman

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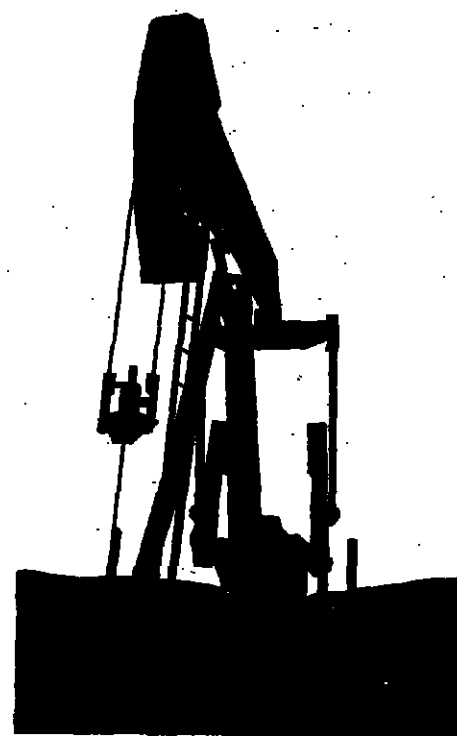
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Transport Sector Steps up Modernization Program

Much of Turkey's carriage of cargo and passengers is by road. At the fore of transportation development is the construction — for the end of the century — of a toll expressway network totaling 3,000 kilometers (1,864 miles). Work is already under

3,000 kilometers of new roads are to be built

way on six major contracts worth about US\$2.5 billion, funded by foreign credits that were awarded in the mid-1980s. They include the now-completed second Bosphorus bridge and approach roads, centerpiece of the Trans-Anatolian ex-

Bridges spanning the Bosphorus, expressways, a recent \$500 million long-haul aircraft order — the development of Turkey's transportation infrastructure goes hand-in-hand with its metamorphosis into a world-class industrial and trading power. Indeed, the imperative to develop communications links has overtaken the transportation master plan published in 1983 and revised in 1986.

pressway, which runs from the Bulgarian border to Ankara.

Perhaps inevitably with such rapid implementation, cost overruns have been incurred, mainly due to design refinements and changes, ac-

cording to Atalay Coskunoglu, head of the general highways directorate (TCK). However, by 1991 the expressway should be completed, except for a difficult mountain crossing roughly in the center of the

Trans-Anatolian route, near Bolu.

The government has now embarked on the second stage of the expressway program, according to Mr. Coskunoglu. By the summer, it hopes to have awarded contracts for another 1,550 kilometers of expressway, in addition to the 1,420 kilometers already built or under construction.

The World Bank, among other organizations, has criticized the expressway program as being beyond Turkey's needs and resources, but Mr. Coskunoglu says experience in Turkey shows that once expressways are built, they are quickly utilized to capacity. Similarly, he points out, though transit trade to Iraq and Iran fell after the heights achieved during the Gulf War in the early 1980s, it is picking up again by about 10 percent annually.

Besides building expressways, Turkey is also rehabilitating and upgrading its existing 60,000-kilometer highway and road network, partly with World Bank support. Previously, Turkey had relied on a steadily deteriorating road and highway system built mainly with Marshall Aid and World Bank funds in the 1950s and 1960s. That had led to chronic congestion and appalling traffic accident rates, while axle loads ate into road surfaces never designed to take them. The aim now is not to enlarge the network, but to ease traffic flow and remove bottlenecks by having the existing highway structure feed into the expressway network.

Air transport has been another major preoccupation of the planners during the 1980s, especially through the rationalization of flag

carrier Turk Hava Yollari (THY-Turkish Airlines). The basic aim is for THY to earn most of its income in hard currency by increasing its international services, while private-sector companies take over most internal routes formerly served by THY and establish others using small propeller-driven, commuter-type aircraft. Last year, Turk Hava Tasimaciligi (THT), a company with a THY majority shareholding, was formed to do this. About ten short take-off and landing (STOL) airports at subsidiary destinations around the country are planned, the first likely to be completed at Manisa.

Apart from the STOL program, Turkey is adequately served by its existing 19 airports, most having considerable excess capacity. Only Istanbul's Ataturk International Airport uses more than 70 percent of its available space, and here negotiations are moving forward with a consortium led by U.S. Lockheed Air Terminal to expand the foreign-lanes air-terminal capacity to seven million passengers annually in a project valued at \$150 million to \$200 million. Nearby, the consortium would also develop the first phase of a world trade center at a cost of more than US\$500 million.

Turkey's aged railroad system of around 10,400 kilometers — less than most European countries despite the country's size — has had to take a back seat to road and air transport in the 1980s. But there are ambitious projects continuously under review, such as the scheme to build a high-speed link between Istanbul and Ankara, thus cutting down on the laborious eight hours it now takes by a circuitous route. Negotiations are under way with Japanese, French and West German bidders. In the meantime, the

main East-West lines are steadily being electrified with help from foreign credit.

Although modernization of the railways has been slow, most of Turkey's large urban centers now have projects to build subway or rapid transit systems. The most advanced seems to be Ankara, where a Canadian-led consortium was scheduled to start work on April 10 on the \$430 million first stage of the city's ambitious subway plans. Istanbul municipality, too, has invited pre-qualification applications for the construction of a subway system and later this year may also invite applications to build the first tunnel

Turkey is adequately served by its 19 airports

crossing of the Bosphorus, having dropped plans to build a third bridge.

Currently, under the third ports project, backed by a \$134 million plan, a program of rehabilitation and expansion is under way at Izmir, Mersin, Samsun and Istanbul's Haydarpaşa port. In recent years, however, the emphasis in port construction has increasingly shifted to private developments, whose unbridled proliferation has led to official concern about a crisis of port capacity in Turkey.

"The shipping business is getting better," says Mustafa Atikalin of Turkish Maritime Lines, the state company involved in ports operation, passenger and cargo handling and shipping and cruise operations. "The Black Sea ports are much busier, and more cruise ships are calling. The throughput of cargo volume is also rising after the end of the war between Iraq and Iran."

Jed Carter

More Routes Part of Long-Term Plan

Turkish Airlines (Turk Hava Yollari-THY) is one of the most forward-looking of the state economic enterprises.

Since 1984, the airline has increased the number of passengers carried annually by 45 percent to 4.1 million. And it is set for further growth.

Much of this rapid expansion is explained by the belated discovery of Turkey as a mass tourist destination in the eastern Mediterranean. In line with Turkey's overall transportation master plan, THY's route expansion strategy focuses on international flights and leaves more internal routes to private feeder airlines.

In the 1980s, the company introduced a long-term program aimed at ironing out inefficiencies by standardizing its fleet purchase plan; it now envisages buying a total of 32 new aircraft by the year 2000 at a cost of \$1.5-1.9 billion, while at the same time selling eight aging DC-9s and Boeing 727s. By 1999, THY's total capacity and production will be respectively 17.4 billion seat/kilometers, and 11.5 billion charged passenger/kilometers.

The program has already entailed expensive purchases of Airbus 310s,

which will number 14 by the time the last is delivered in 1991; it has also saddled the company with heavy debt-servicing bills, totaling \$212 million on aircraft and spares last year. "But we are over the peak," says Cem Kozlu, the general director of THY.

He admits that the company is undercapitalized by European standards, where average financing costs are around 3 percent compared with 10 percent at THY. It seems likely, however, that profitability will improve as debts are amortized; in the meantime, though its share of the international market is small, the airline's growth rate within Europe (reckoned in passenger/kilometers) was three times the average of the Association of European Airlines.

Development trends indicate that in the year 2000, the U.S. will still be the world leader in total air traffic, but that Europe will have declined while Asia and the Pacific will have grown. So THY is investigating American and Far Eastern destinations; it already has plans for flights to New York and Tokyo.

It also hopes to increase its fleet soon by the purchase of six long-haul

jets in a package valued at around \$600 million. The three competitors for the contract, with their respective planes, are Boeing (747-400), McDonnell Douglas (MD-11) and Airbus (A-340).

Because tourist traffic is the staple, a relatively large proportion of THY's passengers travel at reduced rates. As a result of its geographical location, it has the longest average flight of all European lines — 1,671 kilometers.

In order to attract higher income groups, THY will try to improve its service. It will extend busi-

ness-class and first-class accommodations, rationalize passenger processing, better its already above-average record for punctual take-offs and generally upgrade its image.

In addition, THY will attempt to raise the proportion of cargo to total revenue from 5 percent to the world average of around 12-15 percent by doubling volumes carried.

"All of these improvements are bound up with a business philosophy grounded in a constant striving to do better," says Mr. Kozlu.

Jed Carter

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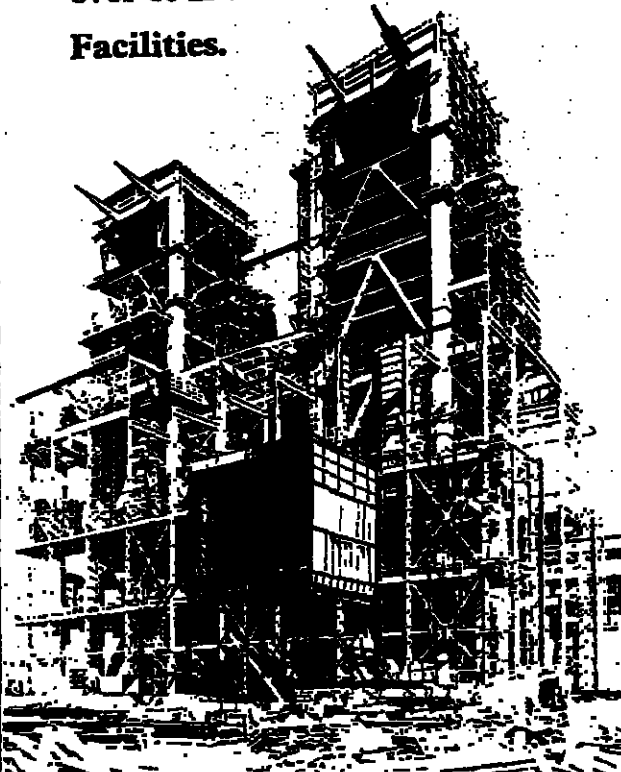
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Istanbul Caters to Needs of Business And Leisure Travel

Istanbul is enjoying a face lift, with new hotels, nightspots and all sorts of multicultural amenities catering to international commercial needs.

With more than 20 foreign banks and newly restructured public and private banking institutions, Istanbul has finally emerged as a main player in the international business marketplace. The foreign business visitors it is attracting are demanding and receiving services similar to those available in London, Geneva or Frankfurt.

"The list of foreign companies operating independently or in joint ventures with Turkish firms grows daily, and is in fact so long that it can't

be booked every night," says Mr. Yakar, headwaiter of the China, who oversees a staff of 20.

Other Far Eastern restaurants include a two-year-old Japanese restaurant just down the street from the China, and two Korean establishments. These now compete with such continental standards as Ziya's, Samden and 29, and with such Levant and Turkish cuisine classics as Abdullah's and Geyik.

For fish lovers, there are excellent restaurants concentrated between Ortakoy and Trabza or in the restored inner-city village of Kumkapi near the mouth of the Sea of Marmara. Another newcomer favored by business visitors is the Garibaldi on Istiklal Caddesi, located in the house the Italian leader once lived in.

New tourism law encourages growth

a few names is to slight the rest," says Atilla Midilli, chairman of the Foreign Capital Coordination Association, known by its Turkish acronym of YASED.

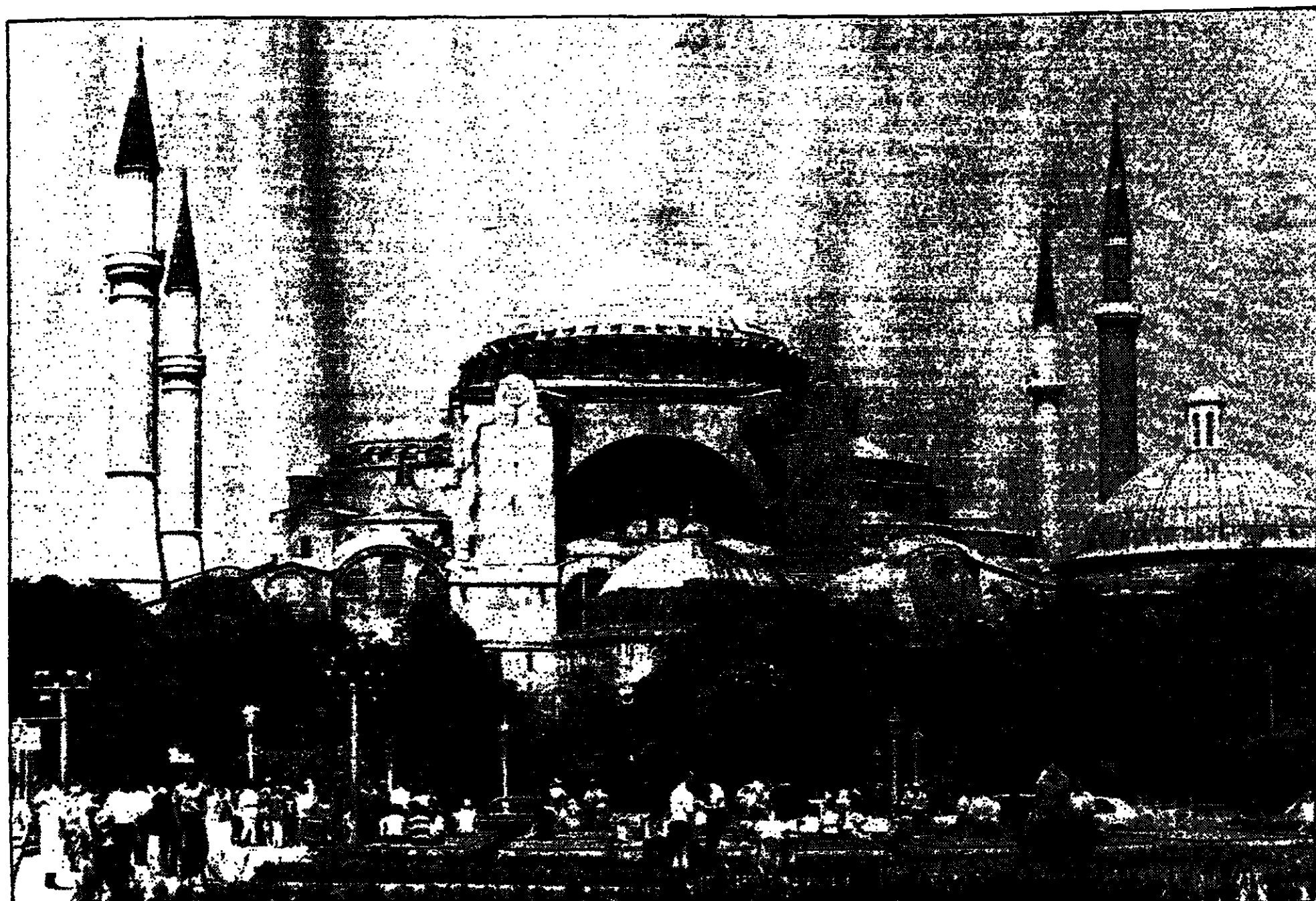
Many excellent international restaurants have recently opened in Istanbul to cater to the city's growing foreign business community. New Chinese restaurants in the Hilton, Ramada and elsewhere compete with the original China Restaurant at Taksim Square, which has grown from a small one-man operation in a basement into a two-floor establishment in the center of the Taksim renovation project.

"Competition would be stiff, but with all the foreign diners around, every Chinese restaurant in town seems to be fully

The Tourism Encouragement Law of 1984 resulted in a plethora of small hotels and "pansiyons" in the Sultan Ahmed area, where the St. Sophia, Blue Mosque and Grand Bazaar are located. These establishments cater mainly to the ordinary tourist. What have been in short supply up to this point are hotels designed specifically for the business traveler. Today all this has changed.

The growing numbers of business visitors to the city is also reflected in the construction of business-class hotels.

There are many well established luxury and business-class hotels, such as



The blue mosque in Istanbul (above); the Rumeli fortress bordering the Bosphorus (below).

the Sheraton, Hilton, Divan and Etap. Among the new ones under construction, which will also serve the growing number of business visitors, are Holiday Inn, Hyatt Regency and a Swiss-managed hotel that will have a striking view overlooking the Bosphorus near the Dolmabahce Palace.

Once again, market forces have dictated that where there is demand, there will be supply, and the side streets of Taksim are now a blur of construction activity as three- and four-star establishments go up.

"We had a 'pansiyon' near St. Sophia and a warehouse that we rented out to commercial clients, who refused to move and sat on set rents," says Bircan Eresin, owner of the Eresin Hotel near Taksim square. "The difference in profits of the tiny hotel and the huge warehouse was phenomenal, so we finally took the plunge and decided to build a new hotel."

In response to the new tourism promotion law, which allowed owners to develop hotels where all other forms of construction had been banned, Mr. Eresin acquired property on the fringes of Taksim and built his establishment in several stages. At a total cost of

about \$6 million, the Eresin has now expanded to 76 rooms, with a basement conference center used by various Rotary clubs. Most of the year the hotel has nearly full occupancy — of which foreign business visitors account for 70 percent.

"We are a small Sheraton," says Mr. Eresin. "We provide all the services the Sheraton does at about half the cost but with the same proximity to the business centers of the city."

The Eresin was one of the first business-class hotels to open in the Taksim area. It has since been

joined by others: Hotel Usta, across the street, recently opened its 60 rooms targeted at a similar clientele; down the street is the newly opened Hotel Nippon, which caters mainly to tourists, according to owner Dursun Ozbek, although its 93 rooms include a few executive suites. Another new favorite is the Riva. Prices at most three- and four-star establishments are around \$75 for a single room and \$100 for a double.

New restaurants, hotels to fill needs

ble — about half of current Sheraton and Hilton prices.

"Hotels are medium- and long-term profit ventures that you only enter into if you believe in the medium- and longer-term potential," says Mr. Eresin. "We believe in the long term, and, given our occupancy quota of foreign business visitors, so do they. We only lose clients when they finally decide to rent apartments."



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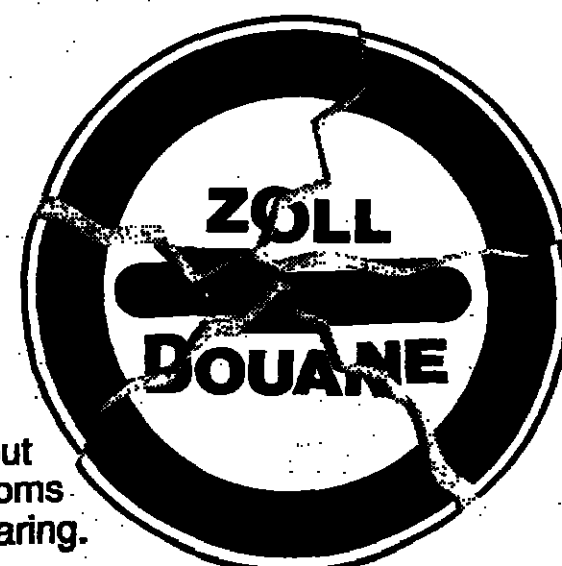
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Thriving Tourism Sector Seeks New Responsibility

Turkey's dynamic tourism sector seems to have found its cruising speed. The ever-growing numbers of arrivals and the mad scramble to construct new hotels and related facilities have slowed to a more reasonable pace.

Industry sources say that while they were used to annual sales increases of upward of 100 percent throughout the 1980s, last year's "meager" growth of around 30 percent has signaled that the time has come for new responsibility.

"We got spoiled," says Haluk Tosunlar, owner of Kiydas tourist publications network, strategically located in Kusadasi, in the middle of the Turkish "Riviera." "Everybody in the industry had to rethink

thermal power plant north of Izmir because of the negative touristic impact the ensuing clouds of smog would produce. This would have been unthinkable three years ago.

"Environmental concerns are not just for the tourists from abroad, they are for the good of our own people," says Minister of State Vehbi Dincerler, who is responsible for the environment.

Elsewhere, a campaign has begun in Istanbul — long the primary touristic destination in the country — to question the advisability of having no less than 37 of all the 142 "tourism centers" in the country immune from normal zoning laws, thanks to the all-encompassing Tourism Promotion Law passed in 1982. The law enabled the state to alienate land it deemed was not being used properly to develop the tourism sector.

Such concerns seem long overdue for those who have watched Turkey's tiny tourism industry take off in recent years. Long portrayed as an "adventure" destination, Turkey was a well-kept secret until the early 1980s when, suddenly, it became a mass tourist destination.

Turkey combines sun and sea with culture and scenery. The traveler can visit the beautiful long beaches of the central Mediterranean, studded with the ruins of castles dating to the time of the Crusades; the stunning remains of ancient Ephesus, once the wealthiest city of Asia Minor; the imperial mosques and Grand Bazaar of Istanbul; the magical "fairy chimneys" of Cappadocia; the magnificent mountains of the eastern Black Sea; and the wild, exotic eastern regions of the country, where nomads still roam. The international attention Turkey received over the past decade seemed to have spoiled many of its attractions; now they are being granted a second chance.

The industry's complaints about last year's vacancies seem mainly a function of supply finally starting to meet demand: tax incentives and the general encouragement of foreign investment in the country resulted in the quadrupling of bed space since 1983 — from 50,000 government-approved units to over 200,000 today, with another 180,000 units planned or under construction.

Tourism grew by 30 percent last year

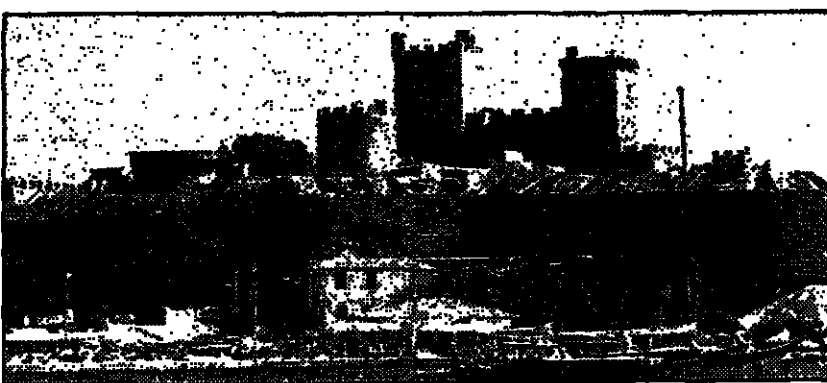
their plans and bring a little order in their dreams. Reality has set in, and it's healthy."

The signs of the "new realism" are everywhere: vigorous efforts to avoid double bookings, language courses for tourism personnel, tests and certificates for guides, a new system of room and service quality control and a new approach to tourism and what it should be all about.

"It is about people, and not necessarily money," says Hasmet Oge, an Aegean coast guide. "The fast money was made three or four years ago; now we are after return tourists, and you can't fool them."

The drive for quality service in anticipation of upmarket customers has been spearheaded by the government, which, until recently, seemed more interested in lining the country's Aegean and Mediterranean beaches with as many hotels as possible.

Now, thanks to a new state ministry in charge of environmental issues and a new law, several areas have been taken under strict protection, and deeds and rental contracts from the state canceled. In addition, the state has launched a US\$500 million program aimed at regulating all aspects of development along the 1,600-kilometer-long (994-mile-long) coast from Gallipoli to Mersin. In one dense target area alone — the wild Lycian coast between the resorts of Kas and Marmaris — no less than 11 projects have been canceled, along with nearly 7,000 beds, because the areas abutted were within the spawning zones frequented by rare, giant loggerhead turtles. The same agency has twice vetted plans for building a massive



From top to bottom: the Antalya Museum; Roman ruins at Ephesus; Crusaders Castle, Bodrum.

But development is development, and the lovely coastline that attracted the elite decades ago has been completely transformed. There is no doubt that old-time visitors to such areas as Side and Kusadasi would scarcely recognize their old haunts: Didyma, the site of one of the most magnificent temples of late antiquity, acquired a poor reputation two years ago: the cavalier treatment of guests and an increasingly polluted

sea made British visitors dub it one of the "worst destinations."

Didyma has since made efforts to improve its image, and it is once again starting to attract a steady stream of visitors. So is nearby Bodrum. A London-based group is so enthusiastic about its long-term growth potential that it has contracted to build Turkey's first privately owned international airport.

Thomas Goltz

Sandy Beaches and Art Treasures Lure Visitors

From the ruins of the ancient Hittite capital of Hattusas and the parliament building in modern Ankara to the Saint Sophia Museum in Istanbul, Turkey is a fascinating mosaic with something for everyone — the archaeologist, the student of history, the pilgrim, not to mention the sun worshipper.

Istanbul... the very name conjures up the rich images of the Orient — the minaret-spiked skyline, the wail of muezzin to the faithful, the call of the carpet merchant from his booth in the Grand Bazaar and the soft, whispered promise of a silk-enveloped Sherazade.

But if these images beckon the traveler to this Janus-faced city, they are but a fraction of what the

Ottoman architecture is just one attraction

real city of the Sultans has to offer.

Split between Europe and Asia by the Bosphorus, Istanbul has always been the meeting place of East and West, the crucible of a unique cultural mixture that has held the imagination of poets, warriors, merchants and travelers for over 2000 years.

Chosen as the site for the New Rome by Constantine the Great in 324 A.D., the city soon became one of the great construction sites of the world. The marvel of the city is the great church first built by Constantine — Hagia Sophia, or Church of Holy Wisdom, later known as St. Sophia. Today's edifice, built by Justinian the Great and consecrated in 537, is the third structure to stand on the same location. It remained the symbol of the city until old Constantinople fell to Sultan Mehmet II Fatih (the Conqueror) in 1543, when it was converted into the imperial mosque of the Ottoman dynasty. It is now a museum.

Hagia Sophia set the architectural standard for all later Ottoman Turkish mosques, of which there are a dozen excellent examples in Istanbul — the Blue Mosque and Süleymaniye Mosque being two of the better known.

The tourist interested in Islamic architecture should also travel to the first Ottoman capital at Bursa. Here, in the green hills along the southern shores of the Sea of Marmara, the Ottoman dynasty grew into a world power from a tribal confederation of shepherds. In addition to the magnificent Green and Grand Friday mosques, visitors should not miss the city's Grand Covered Bazaar — a delight for

both shoppers and browsers. Also popular are the local thermal spas. In the vicinity of the Gallipoli peninsula — known for the World War I battle fought here — and neighboring Troy are some of the most spectacular ruins of classical antiquity in the world: Assos and Pergamon are north of the port city of Izmir, Sardis just inland to the east, while Ephesus, Aphrodisias, Didyma and Miletus are all within a day's drive to the south, as is Pamukkale, once known as the Roman spa of Hierapolis.

But history is not everything: excellent sunbathing, swimming, windsurfing, hang-gliding and nightclubbing can also be enjoyed in such towns as Bodrum, Marmaris, Kas and especially Antalya — the sun capital of Turkey.

The central Anatolian plateau contains the ruins of some of the oldest forms of organized human habitation on earth. Closer to us in time are the "fairy chimneys" of Cappadocia, where early Christians literally tunneled into soft mountains to create homes and chapels.

Worthy of a visit along the Turkish Black Sea is the modern port city of Trabzon, behind which looms the splendid Sümela monastery, seemingly hanging suspended in the mist.

Eastern and southeastern Anatolia are the "outback" of Turkey, places of vast distances, strong tribal loyalties and huge development plans. This is Mesopotamia, where grains were first domesticated and where the GAP project now plans to transform one of Turkey's poorest regions into its wealthiest.

Far to the east, pinched between the Soviet and Iranian frontiers, looms the 5,217-meter (17,216-foot) peak of Mount Ararat, where Noah's Ark allegedly came to rest following the Flood — or so say Christian fundamentalists, who continue to look for pieces of ancient plank in the snow fields near the summit.

The fundamentalists have recently run into competition from organized ski tours, which have enjoyed great success on the slopes after the government lifted a decades-old ban on access to the mountain.

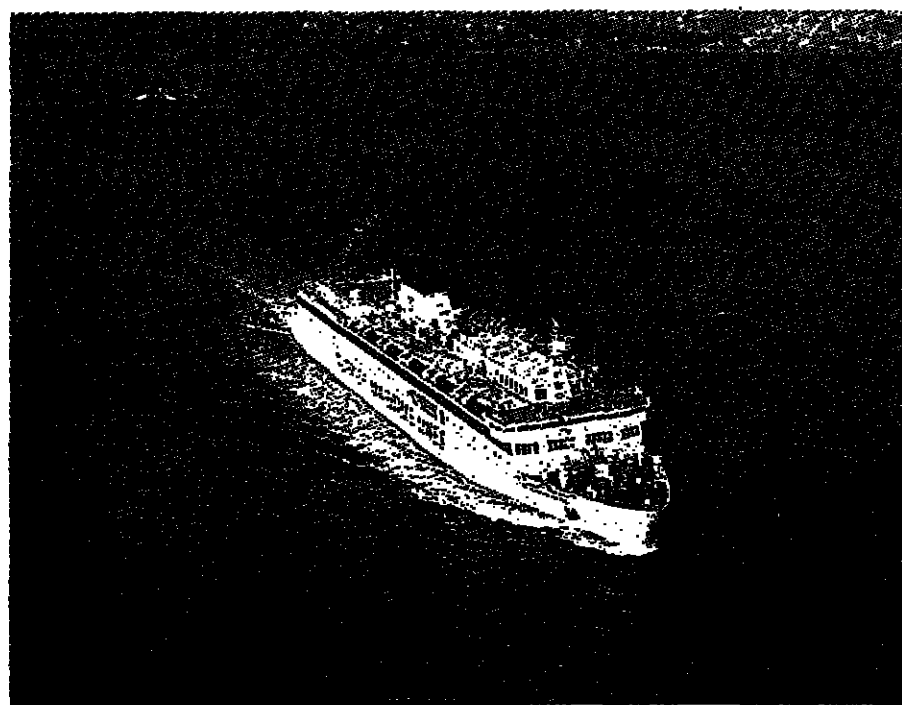
Thomas Goltz

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SPORTS/THE WORLD CUP FINALS

U.S. Team Routed By Czechoslovakia In First Game, 5-1

The Associated Press
FLORENCE — The United States made its first World Cup appearance in 40 years Sunday and found out how far it has to go to be a legitimate soccer power.

Czechoslovakia trounced the U.S. team, 5-1, in a Group A match in the 24-nation world soccer championship.

The Czechoslovaks dominated completely for the first hour and could have scored more except for some poor play near the goal.

Tomas Skuhravy scored twice and Michal Bilek — on a penalty — Ivan Hasek and Milan Luhovy once each for the Czechoslovaks, who led by 3-0 before Paul Caligiuri scored on a solo rush in the 61st minute for the lone U.S. goal.

The U.S. goalie, Tony Meola, who had a difficult match, stopped Bilek's second penalty kick with two minutes left but missed a number of crosses during the match.

His jumpiness was shared by the U.S. defenders, whose lack of experience showed.

Czechoslovakia and the Americans are grouped with Italy and Austria in Group A. Italy beat Austria 1-0 in Rome on Saturday night.

Midfielder Eric Wynalda was ejected for committing a foul when play was stopped seven minutes into the second half, meaning the United States had to play the final 38 minutes a man short after trailing 0-3.

There were many Americans in the crowd of 33,266, but more of the fans were from Czechoslovakia, about a 13-hour drive from Florence.

The United States held its own for the first 10 minutes. Then the Czechoslovaks took control, holding the Americans in their defensive zone.

Skuhravy's opening goal resulted from good work by Lubomir Moravac and poor marking. Three U.S. defenders all moved to Moravac, who crossed delicately from the edge of the penalty area.

Skuhravy was completely unmarked and drove the ball low past the helpless Meola.

The Czechoslovaks created chance after chance and moved further ahead in the 40th minute. Defender Mike Windischmann fouled Hasek in the penalty area and Bilek blasted the ball past Meola on the resulting penalty.

Czechoslovakia moved further ahead six minutes after halftime when Hasek scored high over an immobile U.S. defense to head home a corner kick. Meola, who had crashed into a goalpost on the previous play, did not challenge for the ball.

Caligiuri, the man whose goal against Trinidad and Tobago put the United States in the World Cup, scored off a pass from Bruce Murray. He beat defender Frantisek Straka and slid the ball past goalkeeper Jan Stejkal, who had come off his line.

Skuhravy scored his second goal with 11 minutes left after a corner kick from Josef Chovanec. Luhovy then scored from close range in the dying seconds.

The last time the United States played in the World Cup was on July 2, 1950, when it lost 5-2 to Chile at Recife, Brazil.

Support for the U.S.
Many of the 33,266 fans in the Florence stadium, including some American and many Italian, were rooting for the United States.

However, as the game swung Czechoslovakia's way, its supporters became more vocal.

"We needed to make a good showing," said First Lieutenant Derek Sadler, who is stationed at the U.S. Army base in Mannheim, West Germany. "We're having a great time, but we're here to support our team. It's fun to have a team you can really cheer for."

Sadler said that about three buses of military personnel from Germany traveled to Florence for the game. The package was arranged through U.S. military bases.

"There were a few people who didn't have tickets when they got here, but they were able to buy some out here on the street," said Major Kurt Heinz. "A lot of us have been over here quite a while and we've gotten used to soccer. You grow to like the game and everyone was real excited about the American team coming over here."

Hans Van Derrugt, an assistant soccer coach at the University of San Diego, knows several of the players on the U.S. team, and planned his trip after finding out where the team would be playing.

"We came to Europe and rented a Volkswagen bus," Van Derrugt said. "We went to their games in Switzerland and Liechtenstein. I was surprised to see other Americans there. We were badly outnumbered, but we kept yelling."

"I'm really surprised to see as many American fans here as there are," he said. "We ran into some college kids who told us they were on vacation and didn't know about the World Cup until they got here. They got some tickets and are excited about the whole thing."

There were quite a few fans rooting for Czechoslovakia, too, some even trading chants with the Americans.

"We score three times, you no score," Peter Luhovy, of Prague, told a group of American fans in broken English. "We win game. You lose."

"We have high hopes for our team," Luhovy said. "Americans know little about soccer."

Scott Dold, who just graduated from the University of South Carolina at Aiken, disagreed.

He and two friends played soccer in college and believe interest in the sport is starting to grow.

"I really don't know if the interest in soccer will be way up by 1994 when the U.S. hosts the World Cup," he said, "but with the team qualifying this year, and then the next World Cup back home, people will start to see more and more of the game."

"So far, this has been a real experience," he said. "We saw some of the other matches on TV and there is nothing in the U.S. that even compares in terms of spirit and fan involvement. A good college basketball game might be close, but these people over here really take soccer seriously."

Groups of soccer fans, apparently drunk despite a ban on alcohol sales, smashed the windows of shops and cars along the street. Hundreds of riot police rushed to the area after reports of confrontations between West German and Yugoslav soccer fans.

Police then clashed with the dozens near Milan's well-known Duomo cathedral square.

A police spokesman said seven people were injured in the clashes and 20 people were taken into custody.

Italian authorities also reported that police had clashed with German soccer fans in Lake Garda on Saturday night.

In Sunday's violence in Milan, witnesses said, most of the participants wore caps and colors of the West German national team. But they said fans wearing Yugoslav colors also were involved.

"Many had been drinking beer heavily," a police spokeswoman said. She said that police can fine

cafes owners selling alcoholic drinks, but not individual offenders.

Many fans took beer or other alcoholic beverages from home or bought alcohol in town the previous day to avoid the ban on selling alcohol on the days of World Cup matches.

Dozens of fans could be seen drinking beer from cans Sunday on streets leading to the stadium.

Thousands of West German and Yugoslav fans gathered in the cathedral square and on nearby streets in downtown Milan several hours before the kick-off of the Group D match.

A police officer said the disturbances were the work of a minority of soccer fans.

"Many West German and Yugoslav fans are peacefully watching afternoon matches of the World Cup on big television screens set up in downtown," he said.

The downtown disturbances erupted as most police forces moved to the stadium area to control fans attending the evening match.

Meanwhile, Verona police reported Sunday that 13 West German supporters had been arrested. Charges of violence and vandalism also were filed against 55 others following several overnight disturbances along Lake Garda, the Italian news agency ANSA reported Sunday.

Most West German fans who have come to Italy for the World Cup have camped near Lake Garda, a favorite vacation place, and then traveled to Milan for the games.

English Are Ostracized
Large numbers of English football fans began arriving in Cagliari, Sardinia, on Sunday by chartered aircraft, but were likely to find they would be ostracized by the local population, United Press International reported.

The police were out in force but no incidents were reported.

"I have no news," a British Embassy spokeswoman, Kate Combs, told an afternoon news briefing.

Street violence leading to the arrest of 14 English fans erupted Friday night, but by Saturday the English had joined with the Irish and Sardinians to celebrate Italy's 1-0 victory over Austria.

The 14 persons arrested remained in custody Sunday, pending a hearing. There was no indication a hearing would take place until after Monday night's England-Ireland match.

Fans already in Sardinia have found that, in the wake of the brawl last Friday night, they are unable to gain access to many bars and restaurants.

Some of those who arrived Sunday said they had no accommodation and complained that even lower-range local prices were too high. Most are here for 14 days.

Each piece of baggage brought off the chartered planes was being examined by customs sniffer dogs for traces of illegal drugs.

Midfielder Manfred Linzmeier of Austria injured an ankle Saturday but possibly will be able to play against Czechoslovakia on Friday.

Midfielder Santiago Ostolaza of Uruguay will not recover from a thigh injury in time to face Spain on Wednesday.

Midfielder Rafael Martin Vazquez has recovered from a muscle injury and can play against Uruguay.

Defender Gary Gillespie will miss Scotland's opening match against Costa Rica. He injured a hamstring on Friday.



West Germany's team captain, Lothar Matthäus, dodging Yugoslav defender Safet Susic, scored two goals as his team easily won.

Germans and Yugoslavs Battle With Police in Milan, 23 Are Injured

The Associated Press

MILAN — Police clashed with rowdy soccer fans in downtown Milan before Sunday's World Cup match between West Germany and Yugoslavia. At least 23 people were injured and 36 were taken into custody, police said.

Groups of soccer fans, apparently drunk despite a ban on alcohol sales, smashed the windows of shops and cars along the street. Hundreds of riot police rushed to the area after reports of confrontations between West German and Yugoslav soccer fans.

Police then clashed with the dozens near Milan's well-known Duomo cathedral square.

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WORLD CUP WRAP-UP

Gansler Denies He Intends to Quit

TIRRENA, Italy (NYT) — Bob Gansler, the coach of the U.S. team, was shocked and agitated Saturday morning after reading a published report saying that he intended to resign after the World Cup competition. "There's no truth to that at all," he said.

The report, from Agence France-Presse, said Gansler had announced his intentions before Cameroon beat Argentina in the opening game in Milan on Friday. Gansler said he had no idea how the story originated, or where. The report apparently came from Florence, but Gansler said he was not in Florence on Friday.

"The people who make decisions, the ones who hired me, have certainly indicated to me they are satisfied with our work," he said. "Why would someone want to distract me now? It's just unfair, blatantly unfair."

Restrictions on Alcohol Increased
NAPLES, Italy (AP) — Naples and Udine have joined the growing list of World Cup host cities that have prohibited or restricted the sale of alcoholic beverages on days matches are played.

The Sardinian city of Sassari also ordered a limited prohibition on the sale of alcoholic beverages even though it does not host any matches and is on the opposite end of Sardinia from Cagliari, where England plays its first round matches.

Rome, which first announced Friday that it would prohibit the sale or serving of such drinks at ports, airports, train stations and along principal streets leading to the stadium, later city broadened the ban to prohibit the sale or serving of alcoholic beverages from 7 A.M. on match days until 7 A.M. the next day.

Angelo Finocchiaro, the police chief of Naples, issued a decree Saturday prohibiting the sale of all alcoholic beverages from 1 A.M. Wednesday, when Argentina will play the Soviet Union, until 7 A.M. Thursday; Udine authorities said they had banned the sale of alcohol in the entire province for the three days that the city will host first-round matches.

Pope Gives Way to Match in Rome
ROME (Combined Dispatches) — Pope John Paul cut short a visit to the parish of San Remigio in Rome on Saturday to allow soccer-crazy youngsters to get home in time to watch Italy's opening match.

"The Pope must not even try to compete with the national duty to be sitting in front of the television," he told the crowds in the parish. "So I'll say goodbye now so as to avoid a conflict with Italian soccer."

In Bangladesh, authorities have rescheduled school exams to allow pupils to watch the World Cup on television. Said one student in Dhaka, "We can now watch the games with relatively less tension."

In northwestern Dimapur district, an electricity center was attacked after a power cut during the match between Argentina and Cameroon.

Striker Hossain Hassan of Egypt had his strained leg treated at a hospital Saturday but said he would be fit to play Tuesday in the match against the Netherlands.

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West Germany Defeats Yugoslavia, 4-1, With Matthäus Scoring Twice

The Associated Press

MILAN — Team captain Lothar Matthäus scored two great goals Sunday night to power an impressive West Germany past Yugoslavia, 4-1, in their World Cup opening game. West Germany joined Colombia atop Group D.

Matthäus scored first with a left-foot curling shot in the 28th minute and added a powerful right-foot drive in the 65th minute.

Striker Jürgen Klinsmann added to that in the 39th minute with a diving header and Rudi Voller completed the West German scoring in the 71st minute when he pushed over the line a cross that goalie Tomislav Ivkovic failed to control.

After trailing, 2-0, Yugoslavia scored against the run of play on a powerful header from Davor Jovic in the 55th.

Matthäus and Klinsmann performed in their packed home stadium of Inter Milan, where some 20,000 West German fans celebrated the easy victory of the World Cup favorite by waving flags and banners.

"It helps playing in front of what to me is my home crowd," said Matthäus. "West Germany plays all its group matches here and if everything goes according to plan, two more after that. I take that as a good sign." He insisted that this team is better equipped than the previous two Cup sides.

"We have the skill and the commitment. That is what will make all the difference," he added.

"It is a great team," said West Germany's manager, Franz Beckenbauer. "We cannot play a lot better... The players showed they were in optimal shape."

Once West Germany had opened the comfortable 4-1 lead, it controlled the rest of the match, never giving Yugoslavia and the disappointing playmaker Dragan Stojkovic a chance.

Matthäus broke open a tough, hard-fought first half in the 28th minute with a curling left-foot drive from 24 meters out. Defender Stefan Reuter served him a deep ball, Matthäus turned around an outclassed Jovic and shot past Ivkovic.

Eleven minutes later defender Andreas Brehme — another Inter player — floated in a cross from the left and Klinsmann dove forward to meet it with a glancing header for yet another excellent goal.

After the Yugoslavs scored, West Germany was hardly upset. Matthäus again did the captain's job to push his team ahead with his 26-meter drive from the center.

In the 71st minute, Brehme again crossed from the left, Ivkovic couldn't control the ball and Voller charged to the goal mouth to push it over the line.

Lineups
West Germany: 1. Bodo Illgner, 2. Stefan Reuter, 3. Andreas Brehme, 14. Thomas Berthold, 5. Klaus Augenthaler, 6. Guido Buchwald, 8. Thomas Häßler.

Yugoslavia: 1. Tomislav Ivkovic, 38. Mirsad Balic, 4. Zoran Vukic, 3. Predrag Spasic, 5. Paruk Hadzovic, 6. Davor Jovic, 8. Susic, 13. Dragan Stojkovic, 19. Dusan Savić, 10. Dragan Stojkovic, 11. Zlatko Vujovic.

Referee: Peter Mikkelsen, Denmark.

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MONDAY SPORTS

Trail Blazers Finally Get Some Respect

By David Aldridge
Washington Post Service

PORTLAND, Oregon — Outside respect is gradually creeping into the National Basketball Association final series. The Detroit Pistons were always wary of the Portland Trail Blazers; it just took the rest of the country a little while to catch up.

As the series, which is tied at one game apiece, shifted over for three games, the first on Sunday night, who would have thought that the challengers could lament not being up 2-0 instead of being tied?

"We don't really care about anybody else," said Portland guard Terry Porter, who set a finals record in Game 2 by making 15-of-15 free throws. "The 12 or 13 guys who have been involved with this ball club know how good we are. We believe some very good teams. Nobody's going to believe how good we are until we beat the world champions."

There's nothing we can do about that. We played San Antonio; we had a better record than them all year. Everybody said we couldn't beat them. We played Phoenix; we had a better record than Phoenix. Everybody said we couldn't beat Phoenix. It's just one story on top of another."

Portland's confidence remained high after blowing Game 1. It appeared as if something similar would happen at the end of Game 2, as Detroit took a three-point lead with 49 seconds left. But the Trail Blazers survived that and three three-pointers from Bill Laimbeer in the overtime.

"So many of these games are won from a mental viewpoint," said forward Buck Williams. "Who can hold out the longest? Who can continue to come back after being devastated? We were devastated a couple of times where it seemed we had lost the game. But our mental toughness showed and our character showed."

Detroit has work to do. First and foremost is getting rid of its 20-game losing streak in Port-

land. While it has as much relevance to these teams as former Trail Blazer LaRue Martin and Pistons Hall-of-Famer Bob Lanier have, there it remains. The Pistons have not won in Portland since Oct. 19, 1974.

Portland beat Detroit at Memorial Coliseum by 20 points earlier this season.

"I think it's the ultimate challenge," Isaiah Thomas said, "to go in a place where we haven't won and try to win a basketball game."

Second, the Pistons have replaced defensive ace Dennis Rodman, who has a slight fracture of his left ankle, with Mark Aguirre in the starting lineup for Game 3.

Detroit's entire defensive scheme has been

NBA FINALS

built around Rodman's all-out harassment, his ability to shut down the hot opponent and switch off in time to give weakside help. Otherwise, his teammates can't overlap and shut off passing lanes, and they're forced to defend one-on-one.

Third for Detroit is finding out what ails its scorers off the bench, particularly guard Vinnie Johnson. He's 1-for-10 in the series after a 1-for-4 performance Thursday.

It is not likely that Portland will allow Laimbeer six three-pointers again.

"I can't figure [Johnson] out," said Chuck Daly, the Detroit coach. "I really can't. I don't know what the problem is. He's not aggressive offensively. It's hard to figure at this point."

If Aguirre and Johnson are not scoring, there is little difference between Detroit's bench strength and Portland's, and that was supposed to be one of the Pistons' big advantages in the series.

But just as it was premature to announce the series over after Game 1, so it is to give the championship to the Trail Blazers after one victory.

It would be an amazing accomplishment for

Portland to win three straight and keep the series from going back to Detroit for possible sixth and seventh games.

Aguirre Replaces Rodman

The Detroit Pistons replaced ailing defensive ace Rodman with streak-shooting Aguirre, United Press International reported from Portland.

Rodman has been bothered in the series by a sprained left ankle which limits his jumping and cutting. The team physician, Benjamin Paulucci, said Saturday that the NBA's defensive player of the year has a slight fracture on the inside of his ankle.

"As far as defense, I can rebound or go backwards but as far as going forwards, I can't do that," Rodman said. He added that he "can contribute" as a reserve.

"It doesn't matter; I'm used to coming off the bench," he said. "Mark is a great player. He's a better scorer than I am, and lately he's been doing a better job on defense."

Rodman aggravated the injury late in the first quarter of Thursday night's 106-105 overtime loss while charging after his errant foul shot.

Aguirre began the year as a starter but moved to the bench January 30. When he gets playing time, the 6-foot, 6-inch (1.98-meter) forward is one of the game's purest scorers.

"I have to do whatever it takes," said Aguirre, who averaged at least 24 points a game in five seasons as a Dallas starter. "Losing Dennis is a blow for the team but my starting is nothing new. I'm ready to do it."

Rodman is undergoing treatment that includes ultrasound, electric stimulation and anti-inflammatory drugs.

"[Aguirre] going to make them a better offensive team at the start," said Portland's coach, Rick Adelman. "He's liable to score 30 points on you if he gets his minutes. But they'll lose something defensively."

Go and Go Is Surprise Winner at Belmont

By Steven Crist
New York Times Service

ELMONT, New York — Go and Go, who was flown here from Ireland on Wednesday, drew away in the stretch to finish first by 8 1/4 lengths Saturday in the 122d Belmont Stakes here at Belmont Park.

Thirty Six Red was second with Baron de Vaux third and Unbridled, the even-money favorite, fourth in a field of nine. The winner, a Be My Guest colt owned by Moyglare Stud and trained by Dermot Weld, went off at odds of 7-to-1 and ran the mile and a half (2.4 kilometers) on a slightly muddy track in 2:27.24 under Michael Kinane.

The Belmont is the final leg of thoroughbred racing's Triple Crown, which has been swept 11 times but not since Affirmed did so in 1978. This year, Unbridled won the Kentucky Derby at Churchill Downs on May 5 by 3 1/2 lengths over Summer Squall, but then Summer Squall reversed the decision by 2 1/4 lengths in the Preakness Stakes at Pimlico on May 19.

There was no showdown Satur-



Go and Go, under Michael Kinane, crossing the finish line to win the 122d Belmont Stakes.

day, though. Summer Squall's owners had announced before the Preakness that their colt would not contest the Belmont because New York does not permit the use of Lasix, a controversial performance-enhancing diuretic that is widely prescribed to alleviate exercise-induced bleeding.

Summer Squall's owners say they will try the colt without the drug in the Breeders' Cup Classic at Belmont on Oct. 27, but did not want to risk doing so now at the end of a tough spring campaign.

The bonus is awarded on a point system to the horse who completes the best record in the series, provided he completes all three races.

Unbridled and Land Rush were the only horses to run in each leg this year, and Unbridled had built up an insurmountable lead in the point standings.

mus Saturday just for starting and finishing the race with a rider on his back.

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SCOREBOARD

BASEBALL

Major League Standings

(Through Saturday)

AMERICAN LEAGUE

East Division

W L Pct. GB

Boston 21 23 .524

Toronto 21 24 .514

Baltimore 20 25 .500

Minnesota 20 27 .491

Detroit 20 28 .487

Cleveland 20 29 .479

New York 18 35 .342

West Division

Oakland 27 17 .613

Chicago 23 19 .545

Minnesota 20 25 .491

California 20 26 .490

Seattle 20 28 .487

Texas 20 30 .471

Kansas City 22 32 .462

NATIONAL LEAGUE

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Friday's Line Scores

AMERICAN LEAGUE

Seattle 9-12 (H) 13-8

Detroit 9-12 (H) 13-8

Houston, AL Jackson (9) and Shoemaker; Tanaka, Hanes (8), Gleason (8) and Heath, Hernandez (4-1), Tanaka (4-1), and Heath (4-1).

Seattle, Butler (2), Detroit, Trammell (4).

Seattle 9-12 (H) 13-8

Detroit 9-12 (H) 13-8

Knoblauch, G. Harris (4), Carabott (8), Smith (8) and S. Bradley; Robinson, Gibson (7), Hernandez (4-1), Tanaka (4-1), and Heath (4-1).

Butler (2), Detroit, Sheets (4), Berenson (1), Cleveland 9-12 (H) 13-8

Becker 9-12 (H) 13-8

Parrell and Alonzo; Clemens, Reardon (8) and Pano, W. Clemens (10-2), L. Parrell (4-1), Seaver (8), H. R. Cleveland, Alford (1).

Boston, Burke (7), Chicago 9-12 (H) 13-8

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MONDAY SPORTS



Andrés Gómez was happy to have his trophy in hand on Sunday after winning the French Open, his first Grand Slam tournament title.

Gómez Triumphs Over Agassi

By Nick Stout

PARIS — Andrés Gómez realized a dream that had eluded him for more than a decade on Sunday by winning the French Open tennis championship with a solid 6-3, 2-6, 6-4, 6-4 victory over Andre Agassi.

And as soon as he had the winners' cup in hand, he dedicated it to his native Ecuador.

Ecuador is a small country, he said, with "very difficult facilities for tennis." He said that his victory would not only help to improve the tennis situation there, but also would "help people to know where Ecuador is."

Until this week, Gómez never had been able to get past the quarterfinals in a Grand Slam tournament. It was not so much that he lacked talent; he has been consistently among the top-ranked players. It seemed rather to be a lack of motivation. Three times previously Gómez had reached the quarterfinals, for example, only to lose to Ivan Lendl each time. When Lendl decided to pass up the

French Open this year, Gómez saw a chance not to be missed.

Carrying a reputation for courtesy as well as cleverness on the court, Gómez, 30, now has a new outlook on life.

"It's more of a sunrise than a sunset," he said. "I've gone a step forward in my career. Now I might

FRENCH OPEN

get a little more confidence, knowing what I'm capable of doing. Maybe I'll go another two, three, four years. This is by far the best I've ever played."

Gómez won Sunday thanks to an effective serve that pulled him out of trouble time and again. A peculiarity of the match was that Agassi won more points, 119 to Gómez's 118. But Gómez served 10 aces — including one on his second serve that sealed the first set — and kept the pace of the match unsteady by constantly changing his rhythm.

Agassi praised Gómez for playing a better match, saying that it was Gómez's ability to make good

on his first serve that contributed most to his victory.

"It slid in there pretty nicely for him today," Agassi said. Gómez's serve often left Agassi looking like an acrobat as he moved to field it.

In fact, it was Agassi who did better in this respect, getting 78 percent of his first serves in, compared with 58 percent for Gómez. The difference was that Gómez chose the right moments, and Agassi had more trouble on the returns.

Gómez acknowledged that he had been tired in the fourth set. "I've said it through the years: I'm not a Wilander," Gómez said, referring to Mats Wilander.

Agassi did not try to hide his disappointment.

"If I didn't feel disappointed about taking second place I wouldn't be one heck of a competitor," he said.

Agassi walked onto the court in the same outfit he has worn throughout the tournament: faded black shorts over pink cycling pants and a T-shirt with pink

stripes. Not conceding the Las Vegas native a monopoly on show business, Gómez wore black shorts, with a white shirt trimmed heavily in yellow and black.

The first set went back and forth with each man holding serve until Gómez broke for a 5-3 lead. After he squandered a set point at 40-15, Gómez surprised Agassi with a second-set serve down the center line.

Gómez gave away the second set with a plethora of feeble net balls and suicidal drop shots. But he opened the third set by breaking Agassi with two smashes, a forehand winner and a backhand volley, a shot that seemed to improve as the match progressed. Agassi broke back in the eighth game to even the score at 4-4, and the two played what was probably the pivotal game of the match.

Agassi was ahead, 40-15, on three Gómez errors. But the game went to deuce when Gómez volleyed a winner and Agassi was wide with a backhand. Two points later, Gómez had broken Agassi's serve and was serving for the set at 5-4.

After a confusing start in which two points were replayed because of disputed calls, Gómez served an ace. At 30-0, he double faulted, but made up for it quickly with another ace and a service winner.

The fourth set was characterized by some exciting exchanges, with both players on the offense. Gómez broke serve in the third game and held the edge until he was serving at 4-3, 30-40. This was Agassi's last real chance to stay in the match. The center-court crowd was clearly with the American, chanting his name in unison.

But as he had done all day, Gómez served with precision, and Agassi could manage only a forehand into the net. Gómez won the game with a backhand volley and another serve that Agassi could not handle.

So instead of evening the score at 4-4, Agassi was serving now at 3-5. He held serve but Gómez ended the match a few points later. The winning shot was a left-handed forehand straight down the line.

Gómez held the winners' cup high for all to see and then said to the crowd: "I've always dreamed about this tournament. It just took too long." He congratulated his opponent for a fine match and added: "I'm sure Andre will have a lot of time to win this title."

Agassi, 20, was gracious in defeat, saying that Gómez had "played great all week" and deserved to win.

Many eyes were on the American as he shook hands on the podium with Philippe Chatrier, the president of the French Tennis Federation whom Agassi had criticized repeatedly during the tournament in a controversy over his nonconformist attire.

"We met," Agassi said, then added wryly: "He's a great guy."



A jubilant Monica Seles after defeating Steffi Graf for the title.

For Seles, Victory With Poise

By Nick Stout

PARIS — After Monica Seles convinced the world that she was for real by beating Steffi Graf for the French tennis championship, she said she would try again to persuade her parents to let her buy a car — preferably a Lamborghini.

"I think I deserve it," the left-handed Yugoslav said in the understatement of the week. Her winner's check, after all, was about 1.8 million francs (\$315,000).

Beating the world's best player, 7-6, 6-4, in a dramatic final on Saturday, Seles became, at 16 years and 6 months, the youngest winner of a Grand Slam event since Lottie Dod won Wimbledon in 1887 at age 15.

"I really played so well," Seles said. "I really enjoyed the whole match. Even when it was 4-40 and she had a couple of break points. I just went out there and did my best."

Her victory extended her winning streak to six tournaments and 32 matches, including a triumph over Martina Navratilova in the final of the Italian Open. But there was a sentimental aspect to her victory Saturday.

"This is where it started for me last year," Seles said, remembering that it was the 1989 French Open that had thrust her into the consciousness of the sport's connoisseurs. "Getting into the semis, and then coming back here this year and doing so well is so great."

Seles came to Paris last year savoring a recent victory over Chris Evert, and got to the semifinals at

age 15. Graf beat her here that day, and two other times in 1989. But Seles was rising fast and ended the year ranked No. 6. Three weeks ago she beat Graf for the first time, in Berlin, breaking Graf's 66-game winning streak.

The Berlin triumph was the first time anyone had stopped Graf since Arantxa Sánchez Vicario beat her for the 1989 French title. With Seles only 16 and Graf turning 20 on Thursday, this budding tennis rivalry could last a generation.

On Saturday, Seles was a model of poise under pressure. She came on the court like a tigress, challenging Graf's ferocious forehand repeatedly by playing the corner.

Watching from a television booth was Evert, the seven-time French champion who is doing commentary for NBC. Evert was stunned by Seles's performance.

"She never choked," Evert said. "She didn't show any nerves. And for someone that young, that's very uncharacteristic."

When the rain came 14 minutes into the match, Seles was up 3-1. The 55-minute delay did not seem to bother her. She broke Graf to go ahead 4-1, and was soon serving for the set at 5-3. Only then did Seles begin to look a more human.

She made a few mistakes. Graf got bolder, and suddenly Seles found herself serving at 5-6 to save the set. This she did, thanks ultimately to Graf's forehand into the net, and the two went into a tiebreaker.

Seles made five straight forehand errors and was serving at 0-5 before she won a point on Graf's forehand service return. She won the next

point when Graf sailed a ball long, but then gave Graf four set points with a backhand into the net.

Graf was serving now at 6-2, needing only a point to win the set. If any situation would betray a choker, this was it. Seles did not even cough.

"I thought that if she could go up, 6-2," Seles said, "then I could come back like that." Which is what she proceeded to do.

Graf served, and Seles returned a winning backhand: 3-6. Now Seles served, and Graf's return went long: 4-6. Seles won the next point with a smash. It was 6-5 now, with Graf serving her final set point. Was she nervous? Double fault: 6-6.

Another long forehand by Graf made it 7-6 for Seles, who was now serving for the set.

Seles moved Graf from side to side, then let loose with her two-fisted forehand straight down the line to her left. It seemed fitting that this thrilling set should be won on a winner, not on a mistake.

Graf, having lost a set for the first time in the tournament, took some time to recover. She lost three games in the second set, but then put her famous jumping forehand to work and evened the score at 3-3. Both players held serve until Graf was serving at 4-5. Seles delivered an unplayable backhand to make it 15-30. Then she did it again, and it was match point. The match ended moments later when Graf's forehand sailed out.

Graf, who has now lost this tournament two years running, acknowledged her frustration.

"I was lacking confidence," she

Senna Wins Prix On Berger Fault

Compiled by Our Staff From Dispatches

MONTREAL — Gerhard Berger of Austria, who led from the opening lap to the finish, was penalized for a false start and was dropped to fourth, giving Ayrton Senna the victory in the Canadian Grand Prix here on Sunday.

Race officials said Berger, who started on the outside of pole-sitter Senna, edged his McLaren-Honda forward before the green light.

Senna, who remained in second place in his McLaren-Honda throughout the race, completed the 302 kilometers (187 miles) in 69 laps over the 4.39-kilometer Gilles-Villeneuve Circuit in one hour, 42 minutes and 56.400 seconds, 10.4 seconds ahead of Nelson Piquet of Brazil in his Benetton-Ford.

The victory was Senna's second consecutive Formula One victory and third in five races this season. It was the Brazilian's 23rd career victory.

Nigel Mansell of Britain in a Ferrari was third. Alain Prost of France in a Ferrari was fifth and Derek Warwick of Britain in a Lotus-Lamborghini won his first points with a sixth-place finish.

Prost, the all-time Grand Prix victories leader with 40, remained right behind Senna until he was passed on the 49th lap by Piquet and Mansell.

Senna, who won in Montreal in 1988, picked up nine points for the victory and stretched his lead in Grand Prix standings to 31 points. Berger picked up three points to remain second with 19.

Defending champion Thierry Boutsen of Belgium was in the first of a series of crashes on the early laps as drivers adjusted to a mainly dry track made dangerous by wet patches and puddles from two days of rain.

Boutsen was trying to pass Prost on the 19th lap when he spun and crashed into Nicola Larini of Italy in a Ligier-Ford.

Alessandro Nannini of Italy had a hard-luck day, first losing time by hitting a groundhog on the track, then sliding off the course on a wet patch and crashing backward into a barrier of tires on the 23rd lap.

Four laps later, Jean Alesi's Tyrrell-Ford hit the same puddle and slid backward into Nannini's car, since vacated. The drivers were uninjured.

The next race is June 24 in Mexico City.

SIDELINES

Don King Offers Douglas \$20 Million

LAS VEGAS (Combined Dispatches) — Promoter Don King, in a last-minute attempt to prevent unprecedented purse bidding on a heavyweight title fight, has offered James (Buster) Douglas \$20 million, plus incentives, to fight Erander Holyfield, the top-ranked contender.

Douglas's manager, John Johnson, received the offer Saturday, one day before the World Boxing Association was scheduled to open Douglas's title defense to all promoters. The champion's lawsuit against King prevented him from reaching an agreement with Holyfield — prompting the WBA to order the purse bids, which give a champion 75 percent and challenger 25.

Johnson said the deal was not close enough to what he is seeking, but he said it was "possible" that he and King could settle. Douglas is hoping to fight Holyfield in September. (AP, UPI)

Celtics Deny Power-Struggle Report

BOSTON (UPI) — Red Auerbach, the Boston Celtics' president, and Dave Gavitt, the team's operations chief, have rejected as "stupid, absurd and irresponsible" a report that a rift between them had prompted Mike Krzyzewski to turn down a coaching offer.

Krzyzewski, the basketball coach at Duke, withdrew his name from consideration Thursday night, saying he preferred to remain on the collegiate level. On Friday, the Raleigh (North Carolina) News and Observer said a power struggle between Auerbach and Gavitt had played a role in Krzyzewski's decision. "That is the most stupid thing I have ever heard," Auerbach said. "There is absolutely nothing even resembling that between David Gavitt and I."

For the Record

Sacramento, California, has joined Barcelona, Montreal, Orlando, Florida; Birmingham, Alabama, and San Antonio, Texas, as the sixth city in the new World League of American Football, officials have announced.

Moon Sung Ki of South Korea defended his World Boxing Council super flyweight title Saturday in Seoul, when Gilberto Roman of Mexico refused to answer the bell for the ninth round of the scheduled 12-round bout. (UPI)

The Harvard varsity crew used a strong second-mile effort to break open an even race and win the 12th Yale-Harvard regatta in Ledyard, Connecticut, on Saturday by nine boat lengths in a time of 19:36. (AP)

Georgia, making its first appearance in the College World Series championship game, beat Oklahoma State, 2-1, in Omaha, Nebraska, on Saturday for the national title. (UPI)

Michael Lynagh kicked 17 points in Australia's 21-9 defeat of France in a rugby test match Saturday in Sydney. The French were a man short after the expulsion of flanker Abdelatif Benazzi in the first quarter. The second and third tests in the series are set for June 24 and July 1. (AP)

Yankees Down Orioles to End Slump

Compiled by Our Staff From Dispatches

The New York Yankees beat the Baltimore Orioles, 5-2, in Baltimore on Sunday, ending an eight-game losing streak and giving manager Stump Merrill his first victory after four defeats.

Baltimore shortstop Cal Ripken Jr. played in his 1,507th straight game.

BASEBALL ROUNDUP

contend, putting him in a tie for second with Everett Scott behind Lou Gehrig on baseball's all-time list of consecutive games played.

Jesse Barfield drove in three runs and Steve Sax had three hits as the Yankees stopped an 11-game road losing skid, including six on their current trip. New York won for only the second time in 15 games.

The Orioles, who had been at .500 for the first time since April 24, had their four-game winning streak snapped. Baltimore lost for the second time in nine games.

Jimmy Jones (1-0), promoted from the minors Saturday, scattered three hits in five innings in his first major-league appearance of the season. Dave Righetti pitched one inning for his 11th save.

Indians 4, Red Sox 0: Tom Candiotti pitched five-hit ball for 8½ innings and the Cleveland Indians ended a six-game losing skid by beating the Boston Red Sox in Boston and stopping their seven-game winning streak.

Candiotti struck out two and walked one. He was trying for his first shutout since 1987, but was pulled after a double and single in the ninth. Doug Jones retired two batters for his 19th save.

Tigers 4, Mariners 3: Mark Salas picked a perfect time to break out of a month-long slump.

Salas snapped an 0-for-19 drought with a solo home run that broke a sixth-inning tie Sunday, leading Jack Morris and the Detroit Tigers over Seattle in Detroit.

White Sox 5, Twins 3: Ivan Calderon hit a two-run homer and the Chicago White Sox beat the Twins 5-3 Sunday in Minneapolis.

Bobby Thigpen saved all three victories as the White Sox completed their first sweep since Sept. 25-27, 1979, at Metropolitan Stadium. Chicago has won 11 of 15 games. Minnesota has lost four in a row.

Mets 8, Pirates 3: In New York, Darryl Strawberry, busting out of a season-long slump, hit his fourth homer in three games and drove in four runs to carry the Mets to their third straight victory.

New York won three of four from first-place Pittsburgh to move within 6½ games of the Pirates. The Mets now hit the road for four games each at Chicago and Pittsburgh.

Giants 9, Braves 3: Matt Williams drove in four runs with a three-run homer and a single, powering the San Francisco Giants to a victory over the Atlanta Braves in Atlanta.

It was the eighth victory in nine games for the resurgent Giants, who gave rookie John Burkett (6-1) a 4-0 lead in the first inning.

Astros 4, Reds 2: Casey Candaele snapped a seventh-inning tie with a run-scoring triple in Houston as the Astros beat Cincinnati to send the suddenly-slumping Reds to their sixth loss in seven games.

The first-place Reds won 17 of their first 21 games on the road, but have lost eight of their last 12 away from Riverfront Stadium.

Cubs 7, Phillies 3: Joe Girardi hit his first home run in 145 at-bats this season as the Chicago Cubs won their third straight game at home for the first time this year, beating the Philadelphia Phillies.

The Cubs had not won three straight at home since Sept. 21-24 en route to the division title.

Cardinals 5, Expos 3: Joe Magrane struggled to win for only the third time this season and the St. Louis Cardinals avoided a four-game sweep by beating the Montreal Expos in Montreal.

Magrane, who was 18-9 in 1989, walked five and allowed seven hits in 6-2-3 innings to improve to 3-8. The left-hander struck out seven en route to his first victory since beating Cincinnati on May 20.

In Saturday's games: Orioles 10, Yankees 1: In Baltimore, Randy Milligan hit home runs in his first three at bats and finished with six runs batted in as the Orioles handed the Yankees their eighth straight loss.

Mariners 5, Tigers 2: In Detroit, rookie Russ Swan pitched seven no-hit innings and allowed two hits in eight innings for his first major league victory. He struck out only one batter and did not issue a walk.

Red Sox 11, Indians 6: In Boston, Ellis Burks had six RBI on three hits, including a home run, and Dana Klipper got his first major league victory as Boston won its seventh straight.

Athletics 5, Royals 0: Dave Stewart pitched a four-hitter for his first shutout this season and Rickey Henderson put the Athletics ahead with a two-run double in Oakland, California.

Blue Jays 7, Brewers 3: In Milwaukee, Dave Stieb allowed seven hits in eight innings for his seventh straight victory over the Brewers.

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